UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

ENERGY INTELLIGENCE GROUP, INC., ENERGY INTELLIGENCE GROUP (UK) LIMITED Plaintiffs, v. UBS FINANCIAL SERVICES, INC. Defendant.	ECF Case Civil Action No.: 08-CV-01497 (DAB)

DECLARATION OF THOMAS P. LANE

I, Thomas P. Lane, declare as follows pursuant to 28 U.S.C. 1746:

1. I am an attorney at law duly admitted to practice before this Court.

2. I am a member of Winston & Strawn LLP, attorneys of record herein for Defendant UBS Financial Services, Inc. ("Defendant" or "UBS"). I am familiar with the facts stated herein and the Complaint in this action and, if called upon as a witness, I could and would competently testify hereto.

3. Attached hereto as Exhibit 1 is a true and accurate copy of the Complaint.

4. Attached hereto as Exhibit 2 is a true and accurate copy of a sample issue of *Oil Daily*, available at Plaintiffs' website, http://www.energyintel.com/Trial.asp (follow link under Oil Daily, Sample Issue (PDF)).

5. Attached hereto as Exhibit 3 is a true and accurate screenshot of *Daily Oil Bulletin*, available at dailyoilbulletin.com.

6. Attached hereto as Exhibit 4 is a true and accurate screenshot of *Daily Oil Blog*, available at dailyoilblog.com.

7. Attached hereto as Exhibit 5 is a true and accurate screenshot of *Daily Oil Report*, available at dailyoilreport.com.

8. Attached hereto as Exhibit 6 is a true and accurate comparison of the respective front pages of *Oil Daily, see* Exh. 2, and *UBS Investment Research Daily Oil News*, *see* Complaint, Exh. E, reproduced at one-half their actual size.

9. Attached hereto as Exhibit 7 is a true and accurate copy of the November 20, 2007 issue of *UBS Investment Research Daily Oil News* (also attached to Plaintiffs' Complaint as Exhibit E).

10. Attached hereto as Exhibit 8 is a true and accurate copy of the November 21, 2007 issue of *UBS Investment Research Daily Oil News* (also attached to Plaintiffs' Complaint as Exhibit F).

I declare, under penalty of perjury under the laws of the United States of America, that the foregoing is true and correct.

Executed this 11th day of April, 2008, at New York, NY.

/s/ Thomas P. Lane
Thomas P. Lane

EXHIBIT 1 TO LANE DECL.

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Energy Intelligence Group, Inc. and
Energy Intelligence Group (UK) Limited

JUDGE BATTS

08 CV 01497

UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

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CASHIERS

Energy Intelligence Group, Inc., Energy Intelligence Group (UK) Limited Plaintiffs, -against- UBS Financial Services, Inc. Defendant.	Civil Action No. COMPLAINT FOR COPYRIGHT INFRINGEMENT; TRADEMARK INFRINGEMENT; FALSE DESIGNATION OF ORIGIN; and UNFAIR COMPETITION

Plaintiffs Energy Intelligence Group, Inc. (hereinafter "EIG") and Energy Intelligence Group (UK) Limited (hereinafter "EIG(UK)" and together with EIG

collectively "Energy Intelligence"), by and through its undersigned counsel, alleges the following for its Complaint against UBS Financial Services, Inc. (hereinafter "Defendant") based on personal knowledge and on information and belief, as appropriate:

JURISDICTION AND VENUE

1. Jurisdiction of this Court is invoked under 28 U.S.C. §1331 and 1338 (a), as it is an action arising under Acts of Congress relating to copyrights, namely, the Copyright Act of 1976, as amended, 17 U.S.C. §101 et seq. and relating to trademarks, namely the Lanham Act §32, 15 U.S.C. §1114, et seq. This Court has supplemental jurisdiction over the claims arising under state law pursuant to 28 U.S.C. §1367 (a).

2. Venue is proper in this district pursuant to 28 U.S.C. § 1391 (c) and 28 U.S.C. § 1400 (a) as the Defendant is a corporation actively doing business in this jurisdiction and is subject to personal jurisdiction in this district and is therefore deemed to reside here for purposes of venue.

3. This Court has personal jurisdiction over Defendant by virtue of the fact that it is present in this district and is doing or transacting business here and has committed acts in this district that, as described further below, are infringing Energy Intelligence's copyrights and EIG's federally registered trademark.

THE PARTIES

4. Plaintiff EIG is a Delaware corporation with a principal place of business located

at 5 East 37th Street, New York, NY 10016-2807.

5. Plaintiff EIG(UK) is a United Kingdom limited company with a principle place of business located at Holborn Towers, 8th Floor, 137-144 High Holborn, London, WC1V 6PW United Kingdom.

6. Upon Information and belief, Defendant is a corporation organized and existing under the laws of Delaware with a main office located within this judicial district at 1285 Avenue of the Americas, New York, NY 10019. Upon information and belief, Defendant is licensed by the Secretary of State for the State of New York to conduct business in New York State.

FACTS COMMON TO ALL COUNTS

A. Energy Intelligence's Publications

7. Energy Intelligence and its predecessors in interest have been engaged in publishing newsletters and other publications for the global energy industry for over fifty-five (55) years.

8. In particular, since 2002, Energy Intelligence has published the daily newsletter *International Oil Daily* (hereinafter "IOD"). The focus of IOD is to provide original in-depth and insightful articles regarding the latest developments in the worldwide oil and gas industry, including upstream and downstream developments, assessments of key market trends and prices, news on mergers and acquisitions, political changes, international events, technological advances, legal news, and other activities affecting the oil and gas industry. IOD's audience consists predominantly of individuals with an

interest in the oil and gas industry, including bankers, investors, stock market analysts and traders, commodity analysts and traders and others who follow the industry. Copies of the November 20, 2007 and November 21, 2007 editions of IOD (hereinafter the "Works") are attached hereto as Exhibits A and B.

9. Energy Intelligence has invested significant time and resources in developing its publications and services, including IOD. Energy Intelligence's focus is on providing original, high quality articles and analysis relating to the oil and gas industry.

10. Energy Intelligence maintains an editorial staff of approximately fifty (50) reporters, editors, and analysts at seven (7) editorial bureaus located in New York, Washington, D.C., Houston, London, Moscow, Dubai and Singapore.

11. The original content and other information created by Energy Intelligence and included in IOD and its other publications are valuable assets. Energy Intelligence also publishes the following original publications in addition to IOD:

Serial Publications

Energy Intelligence Briefing;

Petroleum Intelligence Weekly;

Energy Compass;

Uranium Intelligence Weekly;

Oil Daily;

Nefte Compass;

Jet Fuel Intelligence;

International Petroleum Finance;

World Gas Intelligence;

Natural Gas Week;

NGW's Gas Market Reconnaissance; and

LNG Intelligence.

Data Services

Oil Market Intelligence Numerical Data Source;

Natural Gas Week Numerical Data Source;

World Gas Intelligence Numerical Data Source;

Petroleum Intelligence Weekly Numerical Data Source.

Research & Reference Works

Almanac of Russian and Caspian Petroleum (multiple years);

Asia-Pacific Refined Products;

International Crude Oil Market Handbook (multiple years);

The Energy Intelligence Top 100: Ranking the World's Oil Companies (multiple years);

World Gas Handbook (multiple years);

High Oil Prices: Causes and Consequences;

World LNG Review;

Libya Oil & Gas: Back in Business;

Understanding the Oil and Gas Industries; and

Iraq Oil and Gas: A Bonanza Still in Waiting.

12. Energy Intelligence has developed an invaluable reputation for its extremely high standards and the reliability of the content of its publications, including IOD.

13. In order for third parties to benefit from the extensive research efforts and creative content contained in IOD and Energy Intelligence's other publications, Energy Intelligence requires interested parties to purchase various subscription plans to IOD and its other publications, typically based upon the number of individual readers, in order to access the valuable content and analysis contained therein.

14. Interested third parties have various subscription options depending on their particular needs. Subscribers may obtain IOD by email and/or from Energy Intelligence's website, which permits password-protected access to current and/or archived issues. Interested third parties may also purchase individual articles appearing in IOD as well as archived issues from Energy Intelligence.

15. In order to better serve its customers, Energy Intelligence historically participated in a licensing arrangement with a third party that acted as Energy Intelligence's agent for its publications, granting non-subscribers rights to use individual articles and/or portions of Energy Intelligence's copyrighted works in a limited manner for a licensing fee. Energy Intelligence has also historically provided, and continues to provide today, the ability for its subscribers to access individual articles appearing in IOD through its website. The license fee for this service is based on the number of users for the requested article.

16. Additionally, Energy Intelligence licenses and/or syndicates the content of its publications to certain third party users by agreement and for a fee. Pursuant to their

respective agreements, various third party publishers use the content from Energy Intelligence publications in their own publications and other media.

17. Energy Intelligence provides copyright notice on its website, invoices, emails, transmittal letters, articles and publications so that third parties are aware of Energy Intelligence's rights in the publications and works of original authorship. Energy Intelligence is the owner of U.S. Copyright Registration No. TX 6-624-982 for the Works. A copy of said registration is attached hereto as Exhibit C.

18. Energy Intelligence provides a comprehensive copyright notice that appears within the Works themselves (hereinafter, the "Copyright Notice"), which states, "[a]ccess, distribution, and reproduction are subject to the terms and conditions of the subscription agreement and/or license with [Energy Intelligence Group, Inc.]. Access, distribution, reproduction or electronic forwarding not specifically defined and authorized in a valid subscription agreement or license with [Energy Intelligence Group, Inc.] is willful copyright infringement."

B. EIG's Trademark Rights

19. Since at least as early as 1951, EIG and its predecessors have been extensively engaged in the production, advertisement, promotion, sale and distribution of a newsletter publication using the mark THE OIL DAILY and presently the mark OIL DAILY.

20. EIG is the owner of U.S. Federal Registration No. 2,169,571 for the mark THE OIL DAILY®, which is registered for "newsletters dealing with the energy and petroleum industries" in Class 16 and "facsimile and computer online services, namely, providing

information and publications, namely, newsletters, books, and reports dealing with the energy and petroleum industries accessed by facsimile and in digital format" in Class 42. A copy of the federal registration certificate for U.S. Registration No. 2,169,571 is attached hereto as Exhibit D. An amendment to this registration is currently pending wherein the mark will be amended to OIL DAILY.

21. EIG has enjoyed an incontestable right to use the mark THE OIL DAILY® since September 30, 2003, when the U.S. Patent and Trademark Office accepted and acknowledged its affidavit under Lanham Act § 15.

22. EIG has advertised, promoted, sold and distributed newsletters in paper and digital format, using the mark OIL DAILY and is currently doing so in the United States and throughout this jurisdiction. Such acts began occurring long prior to the acts of Defendant complained of herein.

23. Since at least as early as 1951, EIG's OIL DAILY publication has enjoyed commercial success and longevity in the market for newsletters. As a result, the mark OIL DAILY has acquired great value and goodwill and consumers have come to recognize EIG as the source of the OIL DAILY publication.

C. Defendant's Improper Use of Energy Intelligence's Copyrighted Content

24. Upon information and belief, an employee of Defendant's related company, doing business as UBS Warburg, Mr. Jon Rigby (hereinafter "Rigby") has a single-user email subscription to IOD and receives IOD on a daily basis at the email address: jon.rigby@ubs.com. Rigby's single-user email subscription prohibits any copying, distributing, forwarding, or creating of derivative works and does not grant any other

license to use any content contained in any issue of IOD in any form whatsoever. Rigby's single-user email subscription defines any unauthorized use of IOD and the content as willful infringement.

25. Additionally, the Copyright Notice provides that any "access, distribution, reproduction or electronic forwarding not specifically defined and authorized in a valid subscription agreement or license with Energy Intelligence Group, Inc. constitutes willful copyright infringement."

26. No subscription agreement or any other agreement authorizes Defendant or to copy, forward reproduce, create derivative works based upon, or otherwise use the content of the individual copyrighted articles contained in any issue of IOD in part and/or in full in any manner.

27. Upon information and belief, the email address of the designated recipient of the subscription to IOD is used by Rigby, who is physically located in London, United Kingdom.

28. Upon information and belief, on November 20, 2007 and November 21, 2007, Rigby sent emails attaching pdf-versions of two reports entitled "UBS Investment Research – Daily Oil News" (hereinafter "Daily Oil News"), attached hereto as Exhibits E and F, to an undisclosed number of recipients including Defendant's employees and customers. Daily Oil News appears to be a daily publication received by employees of Defendant which appropriates and reproduces original copyrighted material from issues of IOD in the form of entire articles or portions thereof. The appropriated material in Daily Oil News contains substantial amounts of original content from IOD articles and, in

each case, contains the crucial content and analysis from each appropriated article as originally expressed in Energy Intelligence's IOD.

29. Upon information and belief, Rigby receives a daily issue of IOD via email, per the terms of a single-user subscription agreement. Then, Rigby and others employed by UBS Warburg and/or Defendant copy information from Energy Intelligence's IOD and use this copyrighted material in Daily Oil News.

30. Upon information and belief, Daily Oil News is then distributed to recipients within and without Defendant's company including its officers, employees, consultants and customers located in New York, NY and throughout the United States and the world.

31. Upon information and belief, Defendant and/or Defendant's related company, doing business as UBS Warburg, willfully undertook to copy, exhibit, transmit, display, distribute and prepare derivative works from copyrighted IOD articles or substantial portions thereof, without permission from Energy Intelligence and took efforts to concealed said actions. Evidence of such concealment can be seen in one of the few editorial changes to one of Energy Intelligence's articles appearing on page 2 of the November 20, 2007 edition of Daily Oil News. Under the headline "Dubai Output Slump Puts Heat on Benchmark," the last part of the article reads "...industry sources familiar with the operation told IOD on Monday." The original copyrighted article from page one (1) of the November 20, 2007 IOD issue read, "...industry sources familiar with the operation told *International Oil Daily* Monday." Upon information and belief, Defendant and/or Defendant's related company, doing business as UBS Warburg, changed the text of the article to further conceal the source of the original copyrighted material from

which it was copied. See Exhibit E for the November 20, 2007 edition of Daily Oil News and Exhibit A for the November 20, 2007 issue of IOD.

32. Upon information and belief, Defendant and/or Defendant's related company, doing business as UBS Warburg, has for long prior to the publication date of the Works and continuing thereafter willfully copied, exhibited, transmitted, displayed, distributed and prepared derivative works from copyrighted IOD publications or substantial portions thereof. As an example, the December 6, 2007 Daily Oil News report appropriated whole or substantial portions of five (5) articles from the December 6, 2007 copyrighted issue of IOD. Energy Intelligence's December 6, 2007 issue of IOD and Defendant's and/or Defendant's related company, doing business as UBS Warburg, December 6, 2007 publication of Daily Oil News report are attached hereto as Exhibits G and H.

33. Defendant and/or Defendant's related company, doing business as UBS Warburg, has not entered into any agreement or relationship with Energy Intelligence that would allow either to copy, exhibit, transmit, display and distribute and/or otherwise use the copyrighted material from IOD publications in the manner described above.

D. Defendant's Improper Use of EIG's Federally Registered Trademark

34. Upon information and belief, Defendant and/or Defendant's related company, doing business as UBS Warburg, produces a newsletter using the mark DAILY OIL NEWS, which is distributed to Defendant's employees and externally to clients and prospective clients, including those clients and prospective clients within this judicial district.

35. Upon information and belief, Defendant's and/or Defendant's related company, doing business as UBS Warburg's use of the mark DAILY OIL NEWS on its newsletter implies falsely, deceptively and confusingly that the product is in some way associated with, licensed by or otherwise sponsored by EIG.

36. Upon information and belief, Defendant was aware of EIG's mark OIL DAILY because Defendant's employees are subscription holders for the publication and Defendant, in any case, had constructive notice of EIG's federal trademark registration and the goodwill associated with the over fifty-five years of use of the mark in conjunction with newsletters before adopting the infringing name DAILY OIL NEWS for its own newsletter.

37. Upon information and belief, Defendant and/or Defendant's related company, doing business as UBS Warburg, deliberately embarked on a course of conduct that has for its purpose and effect to infringe and EIG's rights and to compete unfairly with EIG in the sale and distribution of newsletters.

38. Defendant's and/or Defendant's related company, doing business as UBS Warburg's use of the infringing mark DAILY OIL NEWS for its newsletter which is targeted to the same consumers as EIG's OIL DAILY publication is likely to cause confusion in the minds of the public and is likely to cause mistake or to deceive consumers into the erroneous belief that Defendant's and/or Defendant's related company, doing business as UBS Warburg's publication emanates from, is associated with, is authorized or is sponsored by EIG or that it is connected in some way with EIG, when this is not the case.

39. EIG has not authorized, licensed, or consented to Defendant's and/or Defendant's related company, doing business as UBS Warburg's use of the mark DAILY OIL NEWS.

40. Upon information and belief, Defendant's use of the mark DAILY OIL NEWS for newsletters dealing with the energy and petroleum industries has resulted in, and is continuing to result in, irreparable damage to EIG for which there is no adequate remedy at law. Unless permanently enjoined, Defendant will continue to distribute a newsletter using the infringing mark DAILY OIL NEWS, thereby resulting in substantial harm to EIG and the goodwill in the federally registered mark OIL DAILY.

COUNT ONE

COPYRIGHT INFRINGEMENT <u>OF THE NOVEMBER 20, 2007 ISSUE OF IOD</u>

41. Energy Intelligence repeats and alleges Paragraphs 1-40 as though fully set forth herein.

42. Energy Intelligence was and is the exclusive holder of all rights, title and interest in the November 20, 2007 issue of IOD (hereinafter "November 20 Issue") and articles contained therein and is the owner of a valid copyright in the same, as shown in U.S. Copyright Registration No. TX 6-624-982. See Exhibit C.

43 The articles contained in the November 20 Issue are highly original and contain creative expression and independent analysis.

44. Upon information and belief, on November 20, 2007, Rigby and/or other employees of Defendant copied whole or substantial portions of copyrighted material from the November 20 Issue, inserted the copied material in Defendant's and/or

Defendant's related company, doing business as UBS Warburg's November 20, 2007 Daily Oil News report and sent copies of the report via email to an as yet undisclosed number of recipients in New York, NY and throughout the United States and the world.

45. Energy Intelligence did not grant Defendant nor Defendant's related company, doing business as UBS Warburg, any right to copy, distribute, exhibit, transmit, display and/or prepare derivative works from any IOD copyrighted publication in part or in its entirety beyond the use permitted pursuant to the subscription granted under the limited single-user license. The terms of the Copyright Notice in the November 20 Issue that Rigby received state that "access, distribution, reproduction or electronic forwarding not specifically defined and authorized in a valid subscription agreement or license with Energy Intelligence Group, Inc. constitutes willful copyright infringement."

46. Rigby's single-user email subscription prohibits any copying, distributing, forwarding or creating of derivative works and does not grant any other license to use any content contained in any issue of IOD in any form whatsoever. Rigby's single-user email subscription defines any unauthorized use of IOD and the content as willful infringement.

47. Defendant and/or Defendant's related company, doing business as UBS Warburg, uses Energy Intelligence's copyrighted materials in its Daily Oil News reports to compete with the same target market as Energy Intelligence's publications.

48. By distributing its Daily Oil News report to customers, Defendant is irreparably damaging the market for IOD because distribution of Daily Oil News containing copyrighted material from IOD supplants and supersedes the market and demand for IOD since Daily Oil News is targeted at the same exact specialized and sophisticated consumer group as IOD.

49. Upon information and belief, Defendant and/or Defendant's related company, doing business as UBS Warburg, had notice of Plaintiff's copyright in the November 20 Issue and the content therein.

50. Upon information and belief, Defendant willfully infringed the copyright in the articles in the November 20 Issue by copying, exhibiting, transmitting, displaying distributing and preparing derivative works from the copyrighted materials in the appropriated articles without permission and/or authorization express or implied from Energy Intelligence.

51. Defendant's aforesaid acts violate Energy Intelligence's exclusive rights under §106 of the Copyright Act of 1976, 17 U.S.C. §106, as amended, and constitute infringement of Energy Intelligence's copyrights in IOD. Defendant's past and continuing copying, exhibiting, transmitting, displaying, distributing and preparing derivative works from the copyrighted subject matter in its Daily Oil News report constitutes willful, deliberate and ongoing infringement of Energy Intelligence's copyrights and are causing irreparable harm and damage to Energy Intelligence.

52. Energy Intelligence has no adequate remedy at law.

COUNT TWO

COPYRIGHT INFRINGEMENT OF THE NOVEMBER 21, 2007 ISSUE OF IOD

53. Energy Intelligence repeats and alleges Paragraphs 1-52 as though fully set forth herein.

54. Energy Intelligence was and is the exclusive holder of all rights, title and interest

in the November 21, 2007 issue of IOD (hereinafter "November 21 Issue") and articles contained therein and is the owner of a valid copyright in the same, as shown in U.S. Copyright Registration No. TX 6-624-982. See Exhibit C.

55. The articles contained in the November 21 Issue are highly original and contain creative expression and independent analysis.

56. Upon information and belief, on November 21, 2007, Rigby and/or other employees of Defendant copied whole or substantial portions of copyrighted material from the November 21 Issue, inserted the copied material in Defendant's and/or Defendant's related company, doing business as UBS Warburg's November 21, 2007 Daily Oil News report and sent copies of the report via email to an as yet undisclosed number of recipients in New York, NY and throughout the United States and the world.

57. Energy Intelligence did not grant Defendant nor Defendant's related company, doing business as UBS Warburg, any right to copy, distribute, exhibit, transmit, display and/or prepare derivative works from any IOD copyrighted publication in part or in its entirety beyond the use permitted pursuant to the subscription granted under the limited single-user license. The terms of the Copyright Notice in the November 21 Issue that Rigby received state that "access, distribution, reproduction or electronic forwarding not specifically defined and authorized in a valid subscription agreement or license with Energy Intelligence Group, Inc. constitutes willful copyright infringement."

58. Rigby's single-user email subscription prohibits any copying, distributing, forwarding, or creating of derivative works and does not grant any other license to use any content contained in any issue of IOD in any form whatsoever. Rigby's single-user email subscription defines any unauthorized use of IOD and the content as willful

infringement.

59. Defendant and/or Defendant's related company, doing business as UBS Warburg uses Energy Intelligence's copyrighted materials in its Daily Oil News reports to compete with the same target market as Energy Intelligence's publications.

60. By distributing its Daily Oil News report to customers, Defendant is irreparably damaging the market for IOD because distribution of Daily Oil News containing copyrighted material from IOD supplants and supersedes the market and demand for IOD since Daily Oil News is targeted at the same exact specialized and sophisticated consumer group as IOD.

61. Upon information and belief, Defendant and/or Defendant's related company, doing business as UBS Warburg, had notice of Plaintiff's copyright in the November 21 Issue and the content therein.

62. Upon information and belief, Defendant willfully infringed the copyright in the articles in the November 21 Issue by copying, exhibiting, transmitting, displaying, distributing and preparing derivative works from the copyrighted materials in the appropriated articles without permission and/or authorization express or implied from Energy Intelligence.

63. Defendant's aforesaid acts violate Energy Intelligence's exclusive rights under §106 of the Copyright Act of 1976, 17 U.S.C. §106, as amended, and constitute infringement of Energy Intelligence's copyrights in IOD. Defendant's past and continuing copying, exhibiting, transmitting, displaying, distributing and preparing derivative works from the copyrighted subject matter in its Daily Oil News report constitutes willful, deliberate and ongoing infringement of Energy Intelligence's

copyrights and are causing irreparable harm and damage to Energy Intelligence.

64. Energy Intelligence has no adequate remedy at law.

COUNT THREE

FALSE DESIGNATION OF ORIGIN

65. EIG repeats and alleges Paragraphs 1-64 as though fully set forth herein.

66. This is a claim arising under the Trademark Laws of the United States, Lanham Act Section 43(a), 15 U.S.C. § 1125(a), for Defendant's and/or Defendant's related company, doing business as UBS Warburg, unauthorized use of the mark DAILY OIL NEWS.

67. Defendant's and/or Defendant's related company, doing business as UBS Warburg's aforesaid acts constitute the use in commerce of a false designation of origin, or false representation of fact which is likely to cause confusion, or to cause mistake, or to deceive as to the origin, sponsorship or approval of DAILY OIL NEWS by EIG.

68. Defendant's aforesaid acts constitute the use in commerce of a false designation of origin or false representation, which misrepresents the nature, characteristics, and quality of Defendant's goods and/or services.

69. Defendant's aforesaid acts constitute a willful and deliberate violation of 15 U.S.C. § 1125(a).

70. As a result of Defendant's intentional use of a confusingly similar trademark and a false designation of origin, description and representation associated therewith, EIG is being and will continue to be irreparably injured by the loss of goodwill and by the ongoing loss of customers and sales.

71. EIG has no adequate remedy at law.

COUNT FOUR

STATE UNFAIR COMPETITION

72. EIG repeats and alleges Paragraphs 1-71 as though fully set forth herein.

73. This is a claim for unfair competition arising under New York General Business Law § 360-1. This Court has supplemental jurisdiction under 28 U.S.C. § 1367 over this claim, which is so related to the other claims in this action that are within the original jurisdiction of this Court that they form part of the same case and controversy.

74. Defendant's conduct and acts alleged above constitute unfair competition and a likelihood of injury to EIG's business reputation and will continue to do so unless such acts are enjoined by this Court.

75. EIG has been irreparably injured by Defendant's aforesaid acts and has no adequate remedy at law.

COUNT FIVE

NEW YORK COMMON LAW TRADEMARK INFRINGEMENT AND UNFAIR COMPETITION

76. EIG repeats and alleges Paragraphs 1-75 as though fully set forth herein.

77. This is a claim for common law trademark infringement and unfair competition under the laws of the State of New York. This Court has supplemental jurisdiction under 28 U.S.C. § 1367 over this claim, which is so related to the other claims in this action that

are within the original jurisdiction of this Court that they form part of the same case and controversy.

78. EIG owns common law trademark rights in the mark OIL DAILY throughout the United States and in the State of New York.

79. Defendant's and/or Defendant's related company, doing business as UBS Warburg's unauthorized use of EIG's common law rights in the mark OIL DAILY without the consent of EIG is likely to cause confusion in the minds of the public and is likely to cause mistake or to deceive consumers into the erroneous belief that Defendant's and/or Defendant's related company, doing business as UBS Warburg's publication emanates from, is associated with, is authorized or is sponsored by EIG or that it is connected in some way with EIG.

80. Defendant's acts and conduct set forth constitute willful infringement of EIG's common law rights in the mark OIL DAILY mark and willful unfair competition with EIG.

81. Defendant's unauthorized use of EIG's common law rights in the mark OIL DAILY mark trades on the goodwill that has developed in this mark and such acts violate EIG's rights in this mark and damages the goodwill represented thereby.

82. Defendant's aforesaid acts are in violation of New York common law and Defendant is liable to EIG for damages and attorney's fees. Defendant's acts have caused and will continue to cause further irreparable injury to EIG if Defendants are not restrained by this Court from further violations of EIG's rights.

83. EIG has no adequate remedy at law.

JURY DEMAND

Energy Intelligence hereby demands a jury trial.

WHEREFORE Energy Intelligence requests:

(1) That Defendant, its directors, officers, agents, subsidiaries and affiliates and all persons acting by, through, or in concert with any of them, be permanently enjoined from using and infringing the copyright and/or copyrights of Energy Intelligence in any manner, and from copying, exhibiting, transmitting, displaying, distributing or preparing derivative works from any of the copyrighted material in any of past, present or future IOD articles;

(2) That Defendant be required to pay to Energy Intelligence such actual damages as it has sustained as a result of Defendant's copyright infringement pursuant to 17 U.S.C. §504;

(3) That Defendant be required to account for and disgorge to Energy Intelligence all gains, profits, and advantages derived by its copyright infringement pursuant to 17 U.S.C. §504;

(4) That Defendant be required to pay Energy Intelligence an increase in the award of statutory damages due to Defendant's willful infringement pursuant to 17 U.S.C. §504 (c)(2);

(5) That the Court issue an Order requiring Defendant to hold harmless and indemnify Energy Intelligence from any claim(s) raised by any third party who allegedly relied upon any Energy Intelligence publication received as a result of Defendant's unauthorized use of its copyrighted materials;

(6) That the Court enter judgment against Defendant finding that its unlawful use of the copyrighted content in the Works is willful;

(7) That Defendant be ordered to pay to Energy Intelligence its costs in this action along with reasonable attorneys' fees;

(8) That the Court grant a permanent injunction restraining and enjoining Defendant, its officers, agents, servants, employees, and all others in privity, concert or participation with it or on its behalf, against further acts of trademark infringement and unfair competition by them in the use or sale of any goods or services, including but not limited to, a newsletter bearing the mark DAILY OIL NEWS or any other mark that is confusingly similar to the mark OIL DAILY, and particularly from in any manner, directly or indirectly:

i) imitating, substantially imitating or making unauthorized use of any identical or colorable imitation of the mark OIL DAILY;

ii) imitating, substantially imitating or making unauthorized use of any colorable imitation of EIG's common law rights in the mark OIL DAILY;

iii) manufacturing, distributing, importing, circulating, promoting, advertising, marketing, selling, offering for sale, moving or otherwise disposing of, any goods or services bearing any simulation, reproduction, counterfeit, copy, colorable or confusingly similar imitation of EIG's mark OIL DAILY;

iv) making any false and/or misleading representation regarding Defendant's newsletter using the mark OIL DAILY;

v) using any false designation of origin or false description which can, or is likely to, lead the trade or public, or individual members thereof, to believe that any of Defendant's goods or services are manufactured, imported, advertised, distributed and/or sold or authorized by EIG;

vi) engaging in any other activity constituting an infringement of EIG's distinctive mark OIL DAILY or its rights in or to use or to exploit the same;

vii) assisting, aiding or abetting any other person or business entity from engaging in or performing any of the activities referred to in sub paragraphs i) through vi) above;

(9) That the Court find that Defendant has infringed EIG's mark OIL DAILY by the acts complained of herein and that said acts will damage and diminish the mark OIL DAILY unless Defendant is enjoined by this Court;

(10) That the Court find Defendant has unfairly competed with EIG by the acts complained of herein;

(11). That the Court grant an order pursuant to 15 U.S.C. §1118 requiring Defendant to deliver up for destruction all infringing inventory and/or packaging, and all promotional and/or advertising material of any kind bearing colorable imitations of EIG's mark OIL DAILY;

(12). That the Court order Defendant to send a written communication to all parties that have received the DAILY OIL NEWS publication informing them that (1) Plaintiff owns the mark OIL DAILY, (2) Plaintiff has not authorized, sponsored or established any association with Defendant in any manner, (3) Defendant's use of the mark DAILY OIL NEWS infringes Plaintiff's mark OIL DAILY, (4) Defendant's use of the mark DAILY OIL NEWS will cease immediately, and (5) provide Plaintiff with a complete list of the parties receiving corrective notification;

(13). That the Court award to EIG pursuant to 15 U.S.C. §1117(a) all of Defendant's profits resulting from the sale of the DAILY OIL NEWS newsletter; and further award to EIG damages as a result of Defendant's willful infringement and unfair competition in an amount to be determined by an accounting if necessary;

(14). That the Court award to EIG its attorneys' fees and costs pursuant to 15 U.S.C. §1117(a);

(15) That the Court award to Energy Intelligence pursuant to 15 U.S.C. §1117(b) three times the profits or damages calculated and awarded under 15 U.S.C. §1117(a) resulting from Defendant's willful use and sale of a newsletter using the name DAILY OIL NEWS, together with prejudgment interest and EIG's attorneys' fees;

(16). That the Court award to EIG punitive damages; and

(17). That the Court award such other further relief as the Court may deem just and proper in the circumstances.

Respectfully submitted,

Dated: 2/13/08

By: ______________________

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EXHIBIT A

Energy Intelligence

Vol. 6, No. 225, Tuesday, November 20, 2007

INTERNATIONAL OIL DAILY

Dubai Output Slump Puts Heat on Benchmark

Dubai's crude oil production, operated by newly established Dubai Petroleum Establishment (DPE) has dwindled this year to some 60,000 barrels per day, posing a real challenge for the benchmark used to price half of the 12 million b/d or so of Mideast crude sold into Asia, industry sources familiar with the operation told *International Oil Daily* Monday.

DPE took over operatorship of the emirate's four offshore fields — Fateh, Southwest Fateh, Falah and Rashid — after the Dubai government last year terminated a concession held since the early 1960s by Dubai Petroleum Co. (DPC), a joint venture grouping ConocoPhillips as operator with Total, Repsol YPF and Germany's RWE and Wintershall. UK-based Petrofac took over management of the production and wells in April, under a service contract awarded by DPE (IOD Apr.9,p2).

Under the old Conoco agreement, Dubai offered a fixed margin of $1 per barrel regardless of international oil prices. This arrangement did not encourage the US major to invest heavily in the concession — even when oil prices rose sharply. After negotiations to renew the contract stalled, both sides agreed last year to terminate the concession five years ahead of the 2012 expiry date.

Despite Petrofac's announcement of ambitious plans to stem the decline in the mature fields, efforts this year to maintain production at last year's levels have failed, despite an increase in the number of rigs working on the offshore sites.

"There are two drilling rigs and two workover rigs currently working offshore, which is a significant increase on last year, but they have been facing serious problems with at least one of the new wells drilled," an industry source said.

Output from the four offshore fields has been declining steadily at an annual rate of around 20%-25%. When Conoco and its partners pulled out in late 2006 Dubai output was close to 70,000 b/d, according to the industry source. "Production is more likely to average just under 60,000 b/d this year," the source added.

Traders contacted by *International Oil Daily* confirmed dwindling physical deliveries of Dubai and expressed concern over the continued use of the grade to price half the Mideast's crude exports to Asia. Oman is used to price the remainder of the 12 million b/d, which represents about 15% of global supply. "We are seeing between four and five Dubai cargoes every month these days, but the tendency is on the lower side," one trader said.

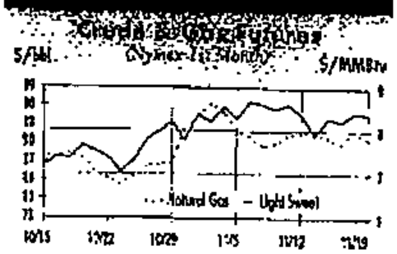
At a rate of four cargoes per month, Dubai would be exporting about 60,000 b/d.

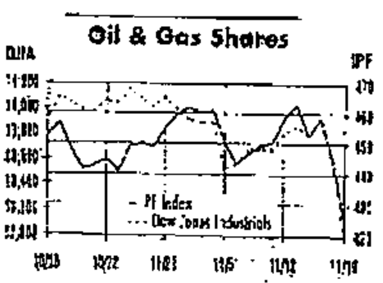
Furthermore, Repsol, reporting its third-quarter results this month, put the loss of its 25% share of Dubai production over the first nine months of this year at an average of 14,900 b/d — which suggests output has averaged 59,600 b/d so far this year. It put the third-quarter loss at 20,300 b/d (IOD Nov.9,p3).

(See Dubai, page 2)

News in Review

Latest Market Trends





Opec Keeps Status Quo, Adds Environment

Opec will not become a more aggressive or even revolutionary organization, standing up for the world's poor. Instead, the producer group will build on dialogue with global oil consumers to address oil market and socioeconomic stability, and help fight climate change, it said at the end of its heads of state summit in Riyadh on Nov 17-18.

Moderate Mideast states at the summit — only the third in Opec's 47-year history — kept the organization on its course of cooperating with oil users, rather than fighting them.

They also discussed proposals from Venezuelan President Hugo Chavez to put Opec on a more aggressive and political footing by making combating poverty another key plank of policy.

The Venezuelan leader did not rule out using oil as political weapon to improve the position of the developing world, but King Abdullah, the head of state of host nation Saudi Arabia, said oil should "be used as a tool for construction, not for destruction."

Speaking after the final summit declaration, Iranian President Mahmoud Ahmadinejad also said he ruled out using oil as a political tool, even if his country were attacked by the US.

The summit laid bare the differences within the organization but ultimately united all members under the broadly worded final declaration, which focused on energy security and the environment.

The political push by Chavez was supported by Ecuador — which rejoined Opec at the summit — and Libya. But it failed to win support from the big producing voices that counted — those of Saudi Arabia and other Mideast states.

Similarly, a proposal backed by Venezuela

(See Opec, page 2)

Retroactive Hike in Production Tax OK'd by Alaska Lawmakers

Alaska became the latest oil-producing region to grab a bigger slice of industry profits last week when lawmakers there approved a 50% increase in the main production tax at today's high prices.

The new law bumps the state's tax on a producer's net profits from 22.5% to 25%, with an additional surtax that ratchets up the rate by 0.4 percentage point for every dollar that a company's netback per barrel of Alaska North Slope crude surpasses $30.

Once the margin on a barrel of oil reaches $92.50 — equivalent to a price of about $115 per barrel in the West Coast market — the surcharge drops to 0.1 percentage points per dollar. The surtax is capped at 50%.

At a market price of $80/bbl, the tax will bring the state treasury an estimated $4.2 billion in fiscal 2009, an increase of $1.6 billion over the petroleum profits tax (PPT) adopted by the legislature last year.

At market prices of $40 to $60 a barrel, however, the tax increase is more modest — about 25%. If market speculation eases and prices return to the $60/bbl level that many economists believe is more realistic, the tax would earn the state about $2 billion in fiscal year 2009. The law has a retroactive effective date of July 1.

Under the new system, the combined state and federal government take of net value is 67.5% at a market price of $80/bbl.

The state will see an additional $1.2 billion in fiscal 2008 compared with future years because of a combination of the retroactive start date, tweaks to tax credits designed to spur investment, and elimination of deductions for capital investments made in the five years prior to the effective date.

Half of the additional revenue at high oil prices is generated by the "progressivity" surtax, which hits the North Slope's large legacy fields — Prudhoe Bay and Kuparuk — hardest. However, one-third of the tax increase will be covered by the federal government, since the production tax is deductible from federal corporate income tax.

Lawmakers chose to drop a minimum tax provision designed to protect the state at very low prices in exchange for a bigger piece of the profit pie at higher prices.

The state's biggest producers — BP, ConocoPhillips and Exxon Mobil — along with smaller players Chevron, Anadarko and Pioneer — decried the tax increase. Some lawmakers did voice concern about raising taxes on the state's main industry, but they were outnumbered in both the House and Senate.

"The Governor and her administration have crafted a bill and pushed it through the legislature that will either tap the producers for another $1.5 billion without harm, or end up hurting our economy by driving away oil industry investment," said House Speaker John Harris, a Republican. "We will need billions of dollars of investment to keep our production up, so I am hopeful the governor has not made a serious mistake with this legislation. But we won't really know for sure for a couple of years," he said.

In addition to raising more revenue, the revised tax law grants the state greater authority to place seismic and other confidential data in the public domain. It also increases financial penalties on companies that fail to comply or file fraudulent returns.

The Alaska Department of Revenue would also be able to determine "reasonable" transportation costs for the purpose of tax deductions instead of being required to use the tariff filed with the Federal Energy Regulatory Commission. Under the law, operating costs at the state's own legacy fields would be eligible for a standard deduction equal to the 2006 costs — a provision that was added to the bill at a late stage to shore up support among Democrats who favored a gross-based tax. The standard deduction would be adjusted annually for inflation and has three-year sunset.

Robert Dillon, Juneau

Dubai . . .

(Continued from 1)

Dubai's falling output lends further support to the idea of using the Dubai Mercantile Exchange (DME) Oman futures contract as a new benchmark for pricing Mideast grades. The DME launched the Oman futures contract in June, when Oman replaced its retroactive pricing mechanism with the DME price.

The government of Dubai also substituted its former oil sales pricing mechanism with DME futures prices. Major regional producers, such as Saudi Arabia, still use the Dubai and Oman crude price assessments provided by oil pricing service Platts.

But as Dubai becomes more and more illiquid, traders say pressure is increasing on producers that continue to use the grade as a marker to find alternatives.

The debate over the efficiency of using Dubai as a benchmark to price Mideast crudes sold into Asia dates back to the 1990s, when Dubai output started falling and began to threaten its status as the sole marker crude at that time.

As liquidity continued to dwindle, Oman crude exports, which currently amount to some 600,000 b/d, came in to share the burden. As Dubai becomes more and more illiquid, DME's ambition is for the Oman futures contract to attract enough liquidity over time to become the sole benchmark for Mideast crudes exported to Asia.

Ruba Husari, Dubai

Opec . . .

(Continued from 1)

and Iran to drop the US dollar as the currency in which oil is traded in favor of the euro fell by the wayside. The dollar has weakened considerably against the euro in the past 12 months, hitting Opec revenues as most producers price and sell their oil exports in the US currency. Opec said it would study the consequences of a possible change, but a switch is unlikely any time soon. The meeting did not provide the market with any guidance on what the oil price should be, with the organization discussing the views of Chavez and Ecuador's president Rafael Correa, that $100 per barrel was a "fair price."

Opec oil ministers will gather for a regular meeting Dec. 5 in Abu Dhabi to decide market policies, but it is unclear whether the group will officially pump more oil in a bid to damp sizzling prices. The lack of guidance out of Riyadh prompted some analysts to conclude that the meeting meant Opec was still in a state of paralysis over how to deal with ever-rising prices.

The organization added more oil to the market in 2004 and again in September this year. The September increase was designed to stop prices breaking the $80/bbl barrier, instead, they have risen nearly $20/bbl. On poverty alleviation and climate change, the declaration said Opec should not be the forum to tackle global issues by itself. It wants to continue bilateral talks with Europe, Russia, China and the International Energy Agency, the Paris-based watchdog for consumer countries.

The group also emphasized the importance of the International Energy Forum as a platform for discussions with consumers about Opec's concerns over consuming governments' subsidies for other energy sources, such as biofuels and coal. At the summit, King Abdullah announced the creation of a fund to study climate change. The king pledged $300 million, while Kuwait, the United Arab Emirates and Qatar said they would each provide $150 million. All Opec heads of state attended the summit except the leaders of Libya and Indonesia.

John van Schaik, Riyadh

Naimi: Saudi Oil and Gas Production Unaffected by Gas Pipe Fire

At least 28 people died after a fire on a gas pipeline in Saudi Arabia's oil- and gas-rich Eastern province early Sunday morning. Saudi officials said the blaze — believed to have been caused by an accident — will not interrupt oil or gas production.

The fire occurred on the Haradh-Uthmaniyah gas pipeline, about 30 kilometers from the Hawiyah gas plant, during maintenance work involving tie-ins for a new pipeline, state giant Saudi Aramco said Sunday. Five Aramco employees were among the dead, but the nationalities or employers of the non-Aramco workers have yet to be announced.

Oil Minister Ali Naimi said Sunday that 12 people were still missing.

"This incident has to do with a new gas line . . . It won't affect oil production in any way. The gas process will not be affected either," Naimi said during a news conference marking the close of the two-day Opec heads of state summit in Riyadh (see p11).

Aramco said emergency teams were immediately mobilized, affected lines were isolated and the fire was brought under control. "Necessary operational adjustments have been made to the gas system to normalize operations to ensure continuity of fuel supply," it added.

The Saudi producer has put an investigation team on the ground, but had no more information on the extent of the damage or the status of the 12 missing by late Monday.

Aramco has ruled out terrorism or sabotage, terming the blast an "accidental occurrence."

Industry sources said the explosion was caused during welding operations involving contractor Suedrohrbau Saudi Arabia, part of Dutch-based Nacap, to connect the Haradh-Uthmaniyah pipeline to a new section of 48 inch pipeline. The gas flow in the existing pipe had been shut off to conduct the tie-in, but hydrocarbons in the line — possibly from a gas leak — caught fire during the welding operation, the sources said.

Suedrohrbau was awarded a $28 million contract in November 2005 for the Hawiyah plant and associated pipelines, including the engineering, procurement and construction of 32 kilometers of 48 inch pipeline and eight kilometers of 36 inch pipeline, along with tie-ins and cathodic protection, according to Nacap.

The fire damaged 200-300 meters of pipe that will need to be replaced, an industry source said. The affected pipeline is part of the Hawiyah gas plant expansion, on which work is under way. But the source said repairs should only take two weeks and should not slow the project timetable.

The project to double the Hawiyah gas plant's capacity to process 2.4 billion cubic feet per day of nonassociated gas is to be completed by July 2008. Also included in the expansion is the Hawiyah natural gas liquids (NGL) recovery plant, which will process 4 Bcf/d of sales gas from the Hawiyah and Haradh gas plants to produce 310,000 barrels per day of ethane and NGLs by early 2009. The plant will supply petrochemical feedstock to the industrial cities of Jubail on the Mideast Gulf and Yanbu on the Red Sea.

Right now, output from Hawiyah, which started up in December 2001, is 1.4 Bcf/d of sales gas and 170,000 b/d of condensate.

Alex Schindelar, Dubai

Cepsa Awards Huelva Work

Spanish refiner Cepsa has awarded a contract worth €55 million ($81 million) to Dutch services provider Imtech to help expand its 100,000 b/d Huelva refinery in Spain. The contract is for engineering, project management and building the expansion, which includes adding 90,000 b/d of crude capacity and increasing diesel and jet fuel output with a 40,000 b/d hydrocracker.

Cepsa, Spain's second-largest refiner, aims to hike middle distillate production by 3.2 million metric tons/yr by 2010 (IOD Feb 21,p8). Around half of its refinery investment, or roughly $2.4 billion, will be channeled toward expanding Huelva. An Imtech spokesman said the company also hopes to be involved in upgrading work at the Algeciras and Tenerife refineries, as it already has maintenance contracts at all three plants.

Eni Abandons Pursuit of UK's Burren, but Other Suitors May Emerge

Italy's Eni said Monday it has abandoned its £1.5 billion ($3.1 billion) bid to buy London-listed Burren Energy — but given record oil prices and demand for new sources of supply, the UK upstream independent may well be in the sights of other, Asian suitors.

Eni refused to increase its revised £12 per share offer, made last week, after Burren rejected it as too low. That was up from an earlier bid of £10.50 on Oct. 9, which Burren also said significantly undervalued the company (IOD Oct.10,p7).

The announcement that Eni was pulling out sent Burren's share price plummeting by nearly 20% in early trade, before closing the day in London down 13% at £10.40. When Eni first made its offer last month, Burren's share price jumped from £9.22 to £11.80 and had hovered at that level ever since.

Burren has production of around 38,000 barrels per day of oil equivalent, mainly from Turkmenistan and Congo (Brazzaville), as well as other assets in India, Yemen and Egypt. The market's reaction Monday appears to be a sign that investors are not expecting a counteroffer to emerge — but other companies could still be interested, according to some analysts.

When Burren rejected Eni's original bid in October, it said it had received "a number of approaches in relation to possible offers." It subsequently emerged that one bidder was state Korea National Oil Corp., whose £11/share offer was also rejected by Burren management.

Given that Eni and Burren are partners in the 55,000 b/d M'Boundi field in Congo, "Eni was the most obvious buyer, because of the M'Boundi connection," Jon Dunningham of UK stockbroker Seymour Pierce told *International Oil Daily*. But another potential suitor could be India's Oil and Natural Gas Corp., he said. The Indian state upstream giant has been active in the Caspian region lately, picking up acreage in Turkmenistan near Burren's Nebit Dag acreage, which contains three producing oil fields. Chinese state-controlled companies have also expressed interest in Caspian assets, he said.

The price is unlikely to head much higher than Eni's offer. "I'd be surprised if a counteroffer went above £12.50-£13.00 per share," a London-based equity analyst said.

"I was surprised [Burren] rejected it. Eni's offer price of £12/share looks like a full and fair value to me," added Richard Rose of Oriel Securities. He said Burren's rejection of the offer reflects management's bullish outlook on growth prospects.

Eni itself may not be out of the running just yet. "Eni reserves the right to make or participate in an offer or possible offer for Burren within the six months following the date of this announcement," it said Monday. It added that it would only make the offer with the agreement of Burren management or if another company put in a bid.

James Batty, London

Market Pays Little Attention to Looser Supply-Demand Balance

Oil market sentiment remains stubbornly bullish despite mounting evidence that demand is responding to high prices, non-Opec supplies are recovering and Opec is delivering more crude.

Supply-demand conditions are undoubtedly getting looser, with high prices taking a large bite out of demand, especially in the developed economies of the OECD, while supplies are seeing a seasonal spurt aided by increased Opec output.

The latest edition of *International Oil Daily* sister publication *Oil Market Intelligence*, published on Friday, shows global supply running at an amazing 1.65 million barrels per day ahead of demand in October.

Global supplies rose nearly 1.5 million b/d versus September on a combination of returns from maintenance and weather events and increased crude production from Saudi Arabia and other Opec members in anticipation of the increase they agreed to implement on Nov. 1.

Demand saw a seasonal 230,000 b/d monthly dip, with year-on-year growth cut back to 650,000 b/d, or 0.8%, and all of that attributable to developing countries.

OECD consumption fell by 780,000 b/d on the month and was 1.2% below the year-earlier month as adjustments continue to be made to high oil prices. For the year-to-date, OECD consumption is down 1.1%, while non-OECD demand rose 3.9% on the year in October.

The market has embraced the continuing growth in non-OECD oil demand as a fundamental factor supporting the rise in oil prices of the last four to five years. Conversely, the monthly jump in oil supply is generally considered to be a temporary one-off phenomenon.

Much of the non-Opec supply increase reflected deliberately or unexpectedly constrained September levels due to maintenance or weather threats, with heavy maintenance seen in Azerbaijan, East Timor, Russia, the North Sea and on Alaska's North Slope.

Saudi Arabia led the increase in supplies with an estimated 265,000 b/d rise in October — most of what it had promised for Nov. 1 — leading total Opec oil output to a gain of 385,000 b/d, about 345,000 b/d of which was crude oil and 40,000 b/d was other liquids (IOD Sep.14,p2).

Besides the Saudi increase and a decline in Nigerian output, seven of the other 10 Opec members saw small gains, with Iran, Libya and Qatar holding steady.

But even with sustainable higher Opec output, the market retains "tight" overtones because inventories are perceived to be low in the face of high geopolitical risks.

Commercial inventories slipped 3 million bbl on the month in October and sit at an uncomfortable 131 million bbl below year-earlier levels. Closely watched OECD commercial stocks lost almost 700,000 b/d on the month. Although hefty gains in non-OECD stocks, oil-at-sea and strategic reserves offset the OECD slippage, the market perception of tightness continues to support prices. It will probably take a major stock-build before sentiment turns substantially bearish on prices.

Longer-term investors in paper oil markets will continue to play on the temporary nature of supply increases against the apparent permanence of non-OECD demand growth. These investors are showing a strong appetite for oil and other commodities over other classes of assets and are interested in keeping their paper profits on the books for the end-of-year bonus season.

David Knapp, New York, and
Matt Piotrowski, Washington

Asian Giants to Be Hardest-Hit by Climate Change, Reports Warn

Global warming will undo decades of social and economic progress in Asia — which is particularly vulnerable to the impact of climate change — unless governments act immediately to reverse it, according to a report out Monday.

In its fifth report, the UK Working Group on Climate Change and Development, supported by a number of environmental and development organizations, says more than six in 10 of the world's population — around 4 billion people — live in Asia. Many live in coastal areas and on small farms where they are particularly exposed to the dangers of climate change, such as rising sea levels and disruption to the water cycle.

"It has become clear that Asia would see some major changes as a result of the impacts of climate change, and several of these are becoming evident already," RK Pachauri, chairman of the UN Intergovernmental Panel on Climate Change (IPCC), said in a foreword to the study. "Even more compelling are the projections for future climate change and associated impacts in Asia, which require an integration of adaptation to climate change with development policies."

The report, *Up in Smoke? Asia and the Pacific*, urges industrialized nations to act "first and fastest" to cut greenhouse gas emissions, ensure technology transfer and increase adaptation funds to help Asian countries deal with the effects of global warming.

It calls on India and China, the region's two biggest economies and emerging global giants, to abandon growth in coal in favor of renewable energy, which could provide them with long-term energy security; and warns governments against deforestation, the second-largest contributor to rising levels of carbon dioxide, to make way for biofuel crops — an alternative source of fuel — rather than food crops.

If no action is taken, Chinese agricultural productivity will fall by 5%-10%, the report said, with production of wheat, rice and corn dropping by up to 37% in the second half of this century. Countries such as Bangladesh, where over 70% of the population relies on farming, are particularly vulnerable to climate change and crop production has already been affected by changes in temperature and rainfall. In India, less water could cause a 30% loss of agricultural production.

In a separate study published Saturday, the IPCC said that all of Asia is very likely to warm this century, accompanied by less predictable and more extreme patterns of rainfall. Tropical cyclones are projected to increase in magnitude and frequency, while monsoons, around which farming systems are designed, are likely to become more temperamental in their strength and time of onset, the report said. The IPCC's fourth and final report — which follows nearly a week of discussions in Spain — is a summary of three scientific reports issued by the IPCC earlier this year. Environmentalists say it will set the tone for a crucial UN climate conference next month in Bali aimed at negotiating a follow-up to the first phase of the Kyoto Protocol, which ends in 2012.

UN Secretary General Ban Ki-moon urged political leaders to push for "a real breakthrough" at the conference in Indonesia, which is set for Dec. 13-14, branding climate change the "defining challenge of our age." The IPCC panel warned that the impact of global warming could be "abrupt or irreversible" and that no country would be spared.

EU Environment Commissioner Stavros Dimas said the report was "a stark warning that the world must act fast ... the good news is that it also shows that deep emission cuts are both technologically feasible and economically affordable," he noted. However, White House environmental adviser and head of the Council of Environmental Quality Jim Connaughton said late Friday that: "The scientific definition of that is lacking and so we are operating within the construct of, again, strong agreement among world leaders that urgent action is warranted."

Deb Kelly, London

US Natural Gas Industry Likely to Feel Impact of Historic Drought

The US natural gas industry could well feel the repercussions of an intense drought in the US Southeast that has left the largest populated areas holding less than 60 days' supply of water

The lack of water could initially be bullish for the gas industry, since it will affect day-to-day operations at nuclear and coal-fired power generators. And if drought forces nuclear facilities to shut, gas-fired power generation would replace the load But it could ultimately prove bearish, one Tennessee gas trader warns, if conditions don't improve and people are forced to leave, cutting residential and industrial gas demand.

The Atlanta area, with a population of nearly 5 million, is the worst-affected area, but the drought — the most widespread in the Southeast in more than a century — has also hit most of Tennessee, Alabama and the northern half of Georgia, as well as parts of Florida, North Carolina, South Carolina, Kentucky and Virginia. Orme, a town in Tennessee about 240 kilometers northwest of Atlanta, is already dry Water is now being delivered on trucks and is only available for three hours in the evening

Lake Lanier, in northern Georgia, is the main source of water for parts of Alabama, Florida and Georgia, including metropolitan Atlanta Water is also sent downstream on the Chattahoochee River to cool a nuclear power plant in Alabama, support Florida's oyster industry, and sustain mussels and sturgeon protected by the Endangered Species Act As of last week, the lake was down 17 feet, a near record, and dropping at a rate of more than five feet per month The authorities say it could exhaust its regular storage in 90 days or less.

So far, no backup plan exists. And there are no quick fixes among suggested solutions, which include piping water in from rivers in neighboring states, building more regional reservoirs, setting up a statewide recycling system, or even desalinating water from the Atlantic Ocean.

The worsening drought is already sparking "water wars" between Georgia, Florida and Alabama

On Friday, Georgia Governor Sonny Perdue asked a federal judge in Florida to force the Army Corps of Engineers to curb the amount of water draining from Georgia reservoirs into Alabama and Florida. Current water-release levels are determined largely by the needs of a Florida hydroelectric plant and Alabama's 1 800 megawatt Farley nuclear plant. Alabama governor Bob Riley says more than 800,000 households depend on Farley and that the current water flow is the minimum required for its operation.

The drought has also prompted questions about the wisdom of plans to build a new coal fired power plant in southwest Georgia that could consume nearly 20 million gallons of water a day from the Chattahoochee River putting additional strain on metropolitan Atlanta's major source of drinking water.

Some meteorologists don't see the drought breaking until next summer AccuWeather senior meteorologist Joe Bastardi believes the South could see warm weather combined with below-average precipitation this winter.

"November into December and March and April will be closest to what we consider winter weather, with the chance of cold and snowy conditions," Bastardi said. "But once we're into the heart of winter, from mid- and late December into February, we may see one of the top 10 warmest winters ever recorded for the southeastern US," he said

"The core of the warm weather will be centered over the Tennessee Valley and the Carolinas These states are looking at a very dry winter, with precipitation amounts less than half of normal in some areas"

Alan Lammey, Houston

MARKET EYE: Jet Sinks

Oil markets let off steam last week as they retreated from the $100 per barrel mark, with US jet fuel prices edging lower for the first time since early November

Heating oil futures on the New York Mercantile Exchange shed nearly 5¢ per gallon on the week, sending outright jet prices lower by anywhere from 2¢-8¢/gallon West Coast rates saw the steepest fall as the prompt market lost steam January supplies were trading at a 1 75¢ premium to prompt barrels, providing incentives to keep volumes in storage December jet fuel was pegged at 17¢/gallon over January heating oil — the highest spread in the country But that was down from a 21¢/gallon differential early in the week

Jet fuel in the Midwest was trading at 16¢/gallon over the screen, while New York Harbor barrels changed hands at 11¢/gallon over heating oil futures Jet fuel demand was hovering around 1.64 million barrels per day heading into the busy Thanksgiving holiday period. October liftings fell by 3.3% below year-ago rates, while imports jumped 14% to 206,000 b/d to offset lower domestic output

European jet premiums softened to around $95/ton above December ICE gas oil futures. But visibility of deals has deteriorated now that three players — Royal Dutch Shell, Glencore and Vitol — have been excluded, or "boxed," from the Platts market-on-close window (IOD Nov.19 p6) The high flat price has attracted higher arbitrage volumes than normal, with at least five cargoes from North America and at least two from Venezuela Traders said that low stock levels mean these would have been sold straight into inventory rather than traded on the market.

Asian jet kerosene spot prices retreated to $110 /bbl Thursday, after surging to the record $115/bbl the week before. Traders expect the jet market to remain firm despite falling Chinese demand as Korean and Japanese refiners are cutting exports.

CAO bought 415,000 tons over the past month for November and December delivery but is not expected to issue additional spot tenders after Chinese refiners raised runs in October by 3% following the hike in product prices by nearly 10% at the start of November

South Korea plans to export 200 000 tons in December, compared to 340,000 tons the month before Starting in December, the Korean finance ministry will slash the special excise tax on kerosene from 90 won (10¢) per liter to 63 won/liter, a move that could prompt a draw on domestic kerosene stocks and future cuts in exports.

Japanese kerosene stocks continued to build, climbing 2.8% to 27.4 million bbl last week, with refiners such as Nippon Oil skipping exports in December Jet's crack remained around $25/bbl, while the regrade rose 40¢ to $6 60/bbl Friday due to softer gas oil prices Singapore middle distillate stocks fell 7.8% to 7.4 million bbl last week

Staff reports

Crude Edges Upward As Funds Reposition for Possible Rally

Crude futures edged higher Monday in a tepid follow-through to Friday's rally in response to a lack of meaningful developments at Opec's weekend summit in Riyadh.

Prices dipped in the middle of the day, which some traders attributed to ongoing problems in financial markets and a weak stock market which was hit by fears that banking behemoth Citibank may face hefty charges because of its exposure to risky loans.

The January light, sweet crude contract on the New York Mercantile Exchange (Nymex) closed up 50¢ at $94.64 per barrel on its first day of trading as the front-month contract. December expired Friday at $95.10 (IOD Nov.19,p3). In London, Brent on ICE Futures closed up 66¢ at $92.28.

The Commodity Futures Trading Commission reported Friday a sizable drop in long positions for crude oil contracts held by investment funds. Combined futures and options open interest fell by 342,663 contracts for the week ended Nov. 13, which Citibank analyst Doug Leggate said was the largest drop ever in one week.

The fact that prices stayed above $90 despite the huge liquidation of long positions — bets that prices will rise — could mean that oil prices may yet hit $100. As BNP Paribas broker Tom Bentz put it: "The funds now have more ammunition to get long again."

But not everyone is convinced prices will keep moving higher. Analyst Jim Ritterbusch said Monday's gains "looked like a low volume institutional rally that could easily be negated in tomorrow's trade."

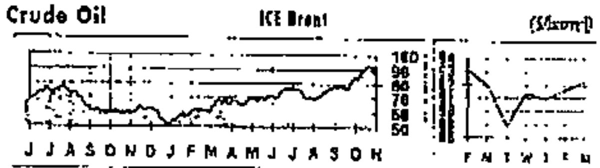
T. Ramsey al-Rikabi, New York

Daily Oil & Gas Price Review

Prices for Monday, November 19, 2007

Crude Oil

ICE Brent ($/barrel)



Crude Oil Futures — Prompt Month ($/barrel)

	Change	1st Month	5-Day Avg.	2nd Month	3rd Month
ICE Brent	+0.66	92.28	91.73	91.81	91.27
Nymex Light Sweet	+0.50	94.64	93.59	93.58	93.52

International Crudes ($/barrel)

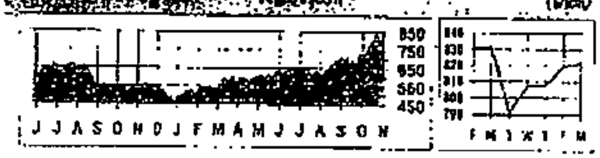
Cash/Spot	Change	Spot Price	5-Day Avg.	Month-Ago	Year-Ago
Iran Heavy	-3.15	92.73	91.72	77.66	55.33
Dubai	+0.63	88.26	85.17	78.44	55.23
Brent	+0.30	92.86	88.47	78.41	57.58
Oil Kirkuk	+0.14	93.17	91.78	82.50	58.71
Opec Basket	+0.32	87.54	88.77	81.55	51.07
Minas	+0.35	94.55	95.45	86.21	55.35
Tapis	+0.37	98.90	97.40	87.94	63.73
Forties	-0.75	92.43	90.47	83.11	58.55
Bonny Light	-0.40	93.64	91.22	85.21	59.56
Urals	-0.40	89.33	88.43	79.81	57.41

US Domestic Crudes ($/barrel)

Cash/Spot	Change	Spot Price	5-Day Avg.	Month-Ago
WTS (Midland)	+1.05	89.75	85.77	78.50
LLS (St. James)	+1.05	96.75	94.78	80.08
Mars (Clovelly)	-0.63	87.87	85.42	74.30
ANS (California)	+0.27	93.42	92.32	86.25
Kern River (LA)	0.00	87.38	82.47	70.25

Refined Products

ICE Gas Oil ($/ton)



Heating Oil/Gasoline Futures — Prompt Month

Futures	Change	1st Month	5-Day Avg.	2nd Month	3rd Month
Nymex (¢/gal)					
RBOB Gasoline	+0.67	230.78	233.81	237.79	233.49
Heating Oil	+1.73	260.47	256.51	261.78	250.40
ICE (London)					
Gas Oil ($/ton)	-2.00	821.25	809.35	814.92	808.50
Gas Oil (¢/gal)	-0.63	260.71	256.94	258.42	258.13

Product Spot Markets

Gasoline (¢/gal)	US Gulf Coast Change	Spot Price	5-Day Avg.	Month-Ago	New York Change	Spot Price	5-Day Avg.	Month-Ago	Rotterdam ($/ton)[E] Change	Spot Price	5-Day Avg.	Month-Ago
Regular Gasoline	-1.10	234.93	233.86	212.22	+3.50	243.70	248.41	214.33	+7.00	814.00	859.50	742.00
Premium Gasoline	-5.60	243.20	245.71	221.44	+2.55	249.45	246.91	221.15	+1.00	814.80	809.05	775.00
Regular RBOB	-2.55	236.95	234.83	212.40	+1.75	242.45	238.94	214.90	...	...	...	
Mid-Distillates (¢/gal)												
Heating/Gas Oil[B]	+1.40	257.15	252.80	228.44	+1.40	254.90	254.74	229.61	+17.75	834.25	816.50	772.75
Low Sulfur Gas Oil/Diesel[C]	+1.65	264.40	260.49	238.34	+1.40	269.15	265.14	236.86	+7.75	901.25	892.50	854.75
Jet Fuel	+1.40	266.90	263.39	237.46	+1.40	270.90	267.38	241.11	+7.75	916.25	907.50	864.75
Fuel Oil ($/bbl)												
1% Sulfur	+0.50	73.75[D]	74.51	67.40	+1.59	71.97[E]	71.30	64.63	+2.00	461.00	457.40	412.00
3%-3.5% Sulfur	+0.59	71.97	72.42	65.37	+2.10	72.13	72.51	67.53	+1.00	460.00	457.00	415.00

Natural Gas

		Change	1st Month	2nd Month
US — Henry Hub (Nymex)	$/MMBtu	-0.214	7.787	8.147
US — Henry Hub (Cash)	$/MMBtu	+0.045	7.355	6.653
UK — NBP (Gas)	p/th	-4.25	53.50[E]	...

Product Spot Markets

	Singapore Change	Spot Price	5-Day Avg.	Month-Ago	Mideast Gulf Change	Spot Price	5-Day Avg.	Month-Ago
Light Ends								
Naphtha ($/bbl)	+1.75	91.07	88.93	82.47	1.36	799.37	798.00	742.85
Regular Gasoline ($/bbl)	+2.00	101.30	99.20	90.41	...	...	...	...
Mid-Distillates ($/bbl)								
Gas Oil	+2.50	106.40	104.47	96.40	1.80	106.56	104.76	95.19
Jet/Kerosene	+1.75	112.15	110.51	98.40	1.03	110.17	110.31	95.35
Fuel Oil ($/ton)								
3% Sulfur	-7.30	497.00	499.79	453.50	1.22	479.08	485.08	443.37

Produced by Oil Daily in cooperation with Reuters.

Notes: All spot assessments are bid prices published by Reuters at 5:30 p.m. ET; changes are from previous published price.
A—Opec basket price is for previous day. Month-ago figure is 20-day average.
B—No. 2 Heating Oil in US; 0.2% Gas Oil in Rotterdam.
C—No. 2 Low Sulfur Diesel in US; Ultra Low Sulfur Diesel in Europe.
D—Low pour. E—All Rotterdam prices are f.o.b. barge quotations.
E—High pour. [illegible]—Day ahead.

NEWS ALERT
INTERNATIONAL From staff and wire reports

Mideast/Africa

Nigeria Seeks Militant's Release

Nigeria's President Umaru Yar'Adua has reportedly formally requested the release of the Niger Delta's most militant leader, Henry Okah, from Angola to face trial in Nigeria, the News Agency of Nigeria said. But Yar'Adua's Angolan counterpart, Eduardo dos Santos, has indicated the extradition process could be lengthy.

Okah, a factional leader of the rebel Movement for the Emancipation of the Niger Delta (Mend), and another unidentified Nigerian were arrested in Angola in early September for alleged arms dealing.

At the time it was thought Okah's arrest could provide Yar'Adua with an opportunity to bring the remaining militant hardliners into peace talks. But his detention in Luanda provoked a resurgence of violent attacks on oil facilities and the abduction of foreign oil workers in the Niger Delta.

"We are trying to find a formula to resolve the issue, which has nothing to do with politics, but criminality. They are Nigerian citizens, so we cannot charge them in Angola," dos Santos was reported to have told Yar'Adua at the weekend Opec summit in Riyadh, Saudi Arabia. "I assure you that we will ultimately release them to you for trial in Nigeria, but we must resolve the legal issues first," dos Santos said.

Mend called off a five-month cease-fire in September following Okah's arrest, which it accused the Nigerian government of masterminding. The group has since claimed responsibility for four separate raids on oil facilities, including last week's attack on a pipeline feeding the Royal Dutch Shell-operated Forcados crude oil export terminal (IOD Nov.16,p1).

According to Mend, Okah is fighting the plans to extradite him to Nigeria as he lives in South Africa and doesn't trust the Nigerian government. "The Nigerian government sought his release to ensure that he does not ever leave the country again," Mend said in an email to *International Oil Daily*. "The peace process is a hoax. We plan further attacks until we are convinced the government is sincere."

Bahrain and Iran Ink Gas Deal

Bahrain signed an initial agreement with Iran Saturday to import 1 Bcf/d of Iranian gas, Bahrain's official news agency reported. The memorandum of understanding was signed by Bahraini Oil Minister Abdul-Hussain bin Ali Mirza and his Iranian counterpart, Gholamhossein Nozari, following a state visit by Iranian President Mahmoud Ahmadinejad (IOD Nov.15,p3).

A technical committee has been set up to determine which Iranian fields will be tapped and who will pay for field development, the agency said. A financial committee will look at import costs. The studies will take up to one year, while the building of pipelines will take three years, it said.

Tehran has signed a number of gas export deals in the Mideast Gulf — including with Oman and the United Arab Emirates — but has yet to export any gas to the region (IOD Nov.16,p8).

Heritage Farms Into Mali

Canadian-based independent Heritage Oil has farmed into two exploration licenses in Mali with a gross area of over 72,000 sq km. Heritage said Monday it had acquired a 75% working interest in Blocks 7 and 11 from Mali Oil Developments, a subsidiary of Centric Energy, which, like Heritage, is listed on Canada's TSX Venture Exchange.

Heritage will operate and fund all costs over the next two years in both blocks, entailing the acquisition of 2-D seismic and the drilling of one exploration well, at a total estimated cost for the two licenses of US$15 million-$20 million, the company said. The licenses are in the Gao Graben, which Heritage considers has geological similarities to the Muglad Basin in Sudan, Chad's Doba Basin and the Albert Basin in Uganda, where the company is also present (IOD Nov.16,p4).

Australia-based Baraka Petroleum has led the recent revival of interest in Mali, signing the first production sharing contract in 2004. Baraka has since farmed out a 50% interest and operatorship of its five blocks — 1, 2, 3, 4 and 5 — to Italy's Eni and a 25% interest to Algerian state Sonatrach (IOD Dec.6'06,p3). Algeria's state seismic company, ENAGeo, won a contract earlier this year to survey the acreage. Mali is a landlocked country in northwest Africa with five sedimentary basins but no known reserves.

PDO Gas Plant Starts Early

Oman's Kauther gas plant is producing more than 4 MMcm/d (141 MMcf/d) of natural gas and 25,000 b/d of condensate, Petroleum Development Oman (PDO) said Monday. The plant began operations at the

Stock Market Scorecard

Integrated Majors	Close 11/19	1-Day Chg.	% Chg.	10-Day % Chg.	52-Wk % Chg.	YTD % Chg.
Total	79.37	+1.77	+2.19%	-2.16%	+16.15%	+10.08%
Eni	67.97	-1.03	-1.45	-4.49	+15.29	+4.00
Marathon	56.85	-1.34	-2.32	-5.23	+40.59	+21.29
Hess	67.93	-2.09	-2.98	-2.75	+60.21	+37.04
Chevron	85.05	-4.01	-4.51	-4.08	+16.33	+15.69
[illegible]	[illegible]	[illegible]	-4.96	-11.51	+17.77	+9.56
[illegible]	[illegible]	[illegible]	-5.19	-3.55	+14.34	+45.94
[illegible]	[illegible]	[illegible]	[illegible]	-7.42	+9.65	+10.86
[illegible]	[illegible]	[illegible]	-4.13	-4.39	+1.31	+5.42
[illegible]	[illegible]	[illegible]	-7.31	-11.36	+26.24	+7.28
[illegible]	[illegible]	[illegible]	-7.31	-30.30	+65.06	+45.35
Petro-Canada	52.07	-4.14	-7.37	-5.36	+27.34	+26.75
BP	70.51	-6.39	-7.97	-7.50	+1.70	+6.70
Statoil	29.88	-2.76	-8.49	-11.57	+12.51	+13.22
XOI Index	1424.59	-19.99	-4.50	-5.69	+18.70	+11.76
Large Producers						
Occidental	68.81	+1.75	+1.07	-3.94	+44.09	+39.25
Apache	97.49	+0.31	+0.31	+2.47	+52.31	+49.57
Murphy Oil	71.50	-0.53	-0.73	-4.35	+51.79	+40.77
Anadarko	56.23	-1.01	-1.76	-4.52	+21.13	+29.25
Pioneer	49.22	-1.04	-2.07	-0.34	+20.84	+24.01
EOG Resources	83.98	-2.62	-3.01	+2.70	+26.23	+34.40
Chesapeake	37.76	-1.65	-4.11	-1.84	+10.49	+25.98
XTO Energy	62.66	-3.02	-4.60	-5.00	+34.09	+52.10
EnCana	66.78	-3.91	-5.59	-0.34	+40.62	+45.33
Devon Energy	85.64	-5.67	-6.21	-5.39	+20.13	+27.67
Nexen	29.84	-1.95	-4.72	-6.55	+11.93	+8.51
Canadian Natural	71.67	-7.58	-9.56	-10.23	-32.41	+34.64
Talisman	18.92	-2.93	-13.44	-12.15	-10.36	+7.20
Refiners						
Frontier Oil	45.40	+1.03	+2.32	+5.74	+54.69	+58.25
Sunoco	69.61	-0.78	-1.11	-7.21	+5.26	+11.63
Tesoro	55.57	-1.77	-3.09	+4.65	+71.66	+68.83
Valero	66.01	-2.83	-4.10	-7.35	+26.14	+29.03
Alon	30.46	-4.01	-13.64	-14.26	+1.51	+15.73
Holly	50.51	-12.31	-19.63	-20.52	+6.20	-1.73
Integrated Energy						
Dow Energy	19.58	+0.76	+4.04	+1.09	+8.74	+3.60
Sempra	60.90	+0.70	+1.16	+1.34	+14.65	+4.67
Williams	34.34	-1.20	-3.42	-3.06	+40.65	+31.55
Oneok	48.56	-2.75	-5.38	+0.10	+16.37	+12.15
TransCanada	39.49	-2.63	-6.24	+1.02	+22.03	+12.99
El Paso	16.07	-1.45	-8.35	-7.36	+15.93	+4.84
Enbridge	36.68	-6.35	-14.44	-5.90	+1.20	+6.63
Service Companies						
Patterson-UTI	18.56	-0.42	-2.10	-11.46	-15.80	-15.72
Nabors	27.00	-0.90	-3.22	-9.16	-12.31	-9.02
Transocean	116.96	-4.01	-3.40	+0.05	+46.30	+46.47
GlobalSantaFe	77.13	-3.41	-4.13	+0.06	+52.52	+56.67
Ensco	52.30	-2.33	-4.29	-6.87	+6.03	+4.47
Schlumberger	91.52	-4.63	-4.82	-18.01	+45.09	+44.96
Baker Hughes	78.34	-6.02	-7.14	-16.73	+13.45	+4.93
FMC Tech	26.34	-2.84	-7.25	-11.39	+12.31	+17.84
Emerging Markets						
Petrobras (Brazil)	100.96	+7.06	+7.25	+16.78	+127.49	+56.18
Cosan (Brazil)	14.27	+0.17	+1.06	+4.99	+42.95	+48.30
Sasol (S. Africa)	49.05	+0.15	+0.31	0.00	+42.34	+32.93
Repsol (S. Korea)	21.04	-0.45	-2.09	-4.14	+6.57	-7.10
Pampa Energia (Arg.)	20.03	-0.79	-6.31	+1.29	-5.00	-11.15
Enersis (Chile)	17.62	-1.42	-7.38	-5.16	-29.72	+11.30
TGS (Argentina)	6.25	-0.50	-7.41	-13.19	+1.11	-21.70
Endesa (Chile)	40.60	-5.47	-11.76	-10.08	-24.63	+18.45
MetroGas (Arg.)	4.57	-0.69	-13.12	-2.77	+32.46	+12.29
Sinopec (China)	129.91	-29.38	-18.44	-21.38	+47.27	+48.23
CNOOC (China)	155.20	-46.72	-23.13	-19.54	+85.25	+64.07
PetroChina (China)	180.92	-68.40	-27.53	-21.50	+63.53	+28.37

Note: Ranked by daily percentage change.

end of October, more than two months ahead of its scheduled January 2008 start-up, PDO said (IOD Feb.7,p4)

"With the Kauther plant now on stream, about 40% of the hydrocarbon energy we supply is in the form of natural gas," PDO Managing Director John Malcolm said. "In fact, PDO expects to deliver as much gas in the next five years as it has done in the previous 30."

PDO said the facility in northern Oman, which is connected to the Kauther field, will build to a peak capacity of 20 MMcm/d and 80,000 b/d of condensate.

Chavez Visits Iran

Venezuela's President Hugo Chavez arrived in Iran Monday with plans to expand bilateral cooperation between the two politically allied countries.

Chavez came to Tehran from Saudi Arabia, where he attended a weekend summit meeting of Opec heads of state.

The leftist Venezuelan leader is expected to meet with his Iranian counterpart, Mahmoud Ahmadinejad, during his visit.

Chavez is accompanied by members of his cabinet, including Energy and Petroleum Minister Rafael Ramirez.

In July, the two countries signed an agreement to build petrochemical plants in Iran and Venezuela and to start joint exploration in the Ayacucho 7 Block located in Venezuela's Orinoco River Belt.

Political ties between the two countries have been growing, with both leaders strongly opposing US policies. Chavez has defended Iran's disputed nuclear program, in the face of the Bush administration's concerns that the country might be trying to develop atomic weapons.

Asia-Pacific

Osaka Gas Seals LNG Deals

Petronas subsidiary Malaysia LNG (MLNG) said Monday it has signed a sale and purchase agreement to sell up to 920,000 tons/yr of LNG to Japan's Osaka Gas. First deliveries for the 15-year contract will begin in April 2009, on an ex-ship basis, from the Malaysian state firm's LNG complex in Bintulu, Sarawak, to Osaka Gas' Senboku and Himeji receiving terminals in Japan.

Osaka Gas is Japan's No. 2 gas utility after Tokyo Gas and the world's fifth-largest by assets, just ahead of Korea Gas. The Japanese gas company already has two supply contracts with MLNG, bringing its total term supplies from Malaysia to about 1.6 million tons/yr (IOD Aug.13,p3).

Osaka Gas intends to import 7.3 million tons (10 Bcm) of LNG in total this year from Indonesia, Malaysia, Brunei, Australia, Oman and Qatar. It aims to boost this to 8 million tons by 2009 on start-up of its 850,000 ton/yr term contract with Oman's Qalhat LNG. It is currently seeking fresh term supplies, as its contract for 1.3 million tons/yr from Indonesia's Arun and Bontang fields expires in 2010 (IOD Oct.12,p7).

Sinopec to Meet Demand

China's largest state refiner, Sinopec, has promised to tackle domestic fuel shortages by boosting product output, increasing imports and curbing exports to meet demand for transportation fuels.

In a 10-step action plan, Sinopec General Manager Su Shulin has mapped out what the state giant will do in a bid to fulfill its "responsibility to society." Su also chairs listed affiliate Sinopec Corp.

First, the company has pledged to keep currently refining runs above 42 million tons (3.42 million b/d) and has increased planned runs in December by 47,300 b/d to 3.43 million b/d. According to Su, the company has raised its January-October crude throughput by 5.4% from last year to 3.31 million b/d

US Crude Imports Remain Above 10 Million b/d

US crude imports in September totaled 10.288 million barrels per day, mostly flat versus August, but down 424,000 b/d from the same time in 2006, according to fresh data from the US Energy Information Administration (EIA). Imports were well below last year because September 2006 was one of the highest import totals on record.

Preliminary data for October show imports much lower at 9.6 million b/d.

Canada, which has been the top supplier for almost two years, shipped 1.956 million b/d to the US in September, mostly flat with the previous month, but up almost 200,000 b/d from the same time a year ago.

Canada was also the top supplier of crude and products in September, sending 2.467 million b/d south. The total was [illegible] below August but [illegible] higher than the same month a year ago. After Canada, Saudi Arabia was the next top supplier, exporting 1.44 million b/d to the US, just 27,000 b/d under August, but 165,000 b/d below last year's level. Year-to-date imports from Saudi Arabia are averaging 1.428 million b/d.

Mexico was third on the list at just under 1.3 million b/d, but imports dropped 98,000 b/d versus August and almost 150,000 b/d versus September 2006, largely because of storm activity delaying shipments.

Venezuela was mostly steady with the previous month, shipping 1.146 million b/d to the US. Nigeria was the last of the biggest exporters to the US, with 1.137 million b/d, down almost 50,000 b/d from August, but a big improvement from last September when the African country sent an unusually low 966,000 b/d to the US.

Imports from Iraq shot up by 83,000 b/d compared to August for 603,000 b/d, well above the year-to-date average of 494,000 b/d. Angola's exports to the US also shot up, rising by [illegible] from August to 57[illegible] [illegible] imports were just [illegible] [illegible] b/d, while imports from Brazil totaled 213,000 b/d, up 1[illegible]4,000 from September of last year. Colombia's exports to the US rose slightly to 165,000 b/d, while imports from Kuwait were mostly steady at 143,000 b/d.

Matt Piotrowski, Washington

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and its refined product output by 4.9% to 1.97 million b/d. The company will adjust its product slate to focus more on diesel and less on jet kerosene and naphtha, he said.

The plan emerged after meetings with government officials following two weeks of fuel shortages — especially diesel — brought on by Chinese refiners' unwillingness to increase supply in the face of retail price caps. At the start of November, Beijing raised domestic prices of gasoline, diesel and jet fuel to encourage production (IOD Nov 2,p5). Last week, rival refiner PetroChina told local reporters that it would refine 12% more crude this year than last (IOD Nov 19,p6).

Additionally, Sinopec said it will delay maintenance shutdowns at five refineries to ensure sufficient product supplies. The refineries are in Zhenhai, Jinan, Yangzi, Hainan and Jiujiang. Shortages should ease further as Shanghai Gaoqiao adds 50,000-60,000 tons of fresh diesel and gasoline supplies from a new secondary unit that has started up ahead of schedule, Su said.

Woodside, CPC in LNG Deal

Australia's Woodside Petroleum has signed an agreement with Taiwan's CPC outlining key terms for potential long-term LNG sales of 2 million-3 million tons/yr from the Woodside-operated Browse project.

Woodside said Monday that the deal would run for 15-20 years, starting between 2013 and 2015. The preliminary agreement encompasses key commercial parameters, including price, and could help negotiations on further potential LNG sales from other Woodside Australian developments.

Other investors in the Browse project have not been party to the agreement, which is still subject to a final investment decision and receipt of government approvals. This would be the first long-term deal between Woodside and CPC, which is eager to seek new contracts to replace Indonesian supplies due to expire at end-2009.

Woodside's announcement came two months after it inked a preliminary agreement with PetroChina to sell the state Chinese group 2 million-3 million tons/yr of LNG, also from Browse (IOD Sep 7,p1).

Stybarrow Starts Oil Flow

First oil has started flowing from the Stybarrow project off northwest Australia, with production expected to plateau at 50,000-60,000 b/d in the next few months.

Joint-venture partners Woodside and BHP Billiton said Monday that first oil came from the Eskdale field and that Stybarrow will start up in coming weeks. The two fields, in Block WA-32-L in the Exmouth sub-basin, have estimated recoverable oil reserves of 60 million-90 million bbl and an estimated economic shelf life of 10 years.

The oil was produced by a floating storage and offloading facility, Stybarrow Venture, which has a maximum production rate of 80,000 b/d and a storage capacity of 900,000 bbl.

Last week, Japanese explorer Inpex said it had made a final investment decision on developing the Ravensworth field in Block WA-155-P — also in the Exmouth sub-basin — in which it holds a 28.5% interest. The balance is held by Australian operator BHP-Billiton (40%) and Apache (31.5%). Production is due to start in the second half of 2010 and run for 25 years. The project will be developed together with the nearby BHP-operated Pyrenees project in WA-12-R (IOD Jul 5,p7).

Europe/FSU

Russia to Offer 10 Areas

The Russian natural resources ministry's subsoil agency, Rosnedra, has identified 10 areas to be offered for geological exploration in January 2008.

The biggest is the Kamursk oil and gas block in the Nenets autonomous region, which borders the Barents Sea to the north and the Komi republic to the south, and is a production center for state Rosneft, Lukoil and US ConocoPhillips, which export from the area by sea. The region lacks large-scale pipeline infrastructure, although pipeline monopoly Transneft has examined plans to build a northern Russian line linking Kharyaga in Timan-Pechora to Indiga on the Barents Sea (IOD Jun 21'05,p2). Russian Surgutneftegas also recently bought licenses in the Nenets district. Other areas on offer include the Vakhrinsk acreage near the Sakhalin Island city of Alexandrovsk.

BP Spuds 2nd Azeri Inam Well

BP spudded the second exploration well on the Inam Block in the Azeri sector of the Caspian Sea on Nov. 11, BP Azerbaijan boss Bill Schrader told the Azeri media.

Work on the first well halted short of its target depth of 5,000 meters in 2001 after encountering abnormally high pressure. The second well will be drilled by the *Istiglal* rig, which has just completed a 7,000 meter well at the Caspian Shah Deniz field. Analysts expect drilling to take over 200 days because of the depth.

Korea National Oil Corp. (KNOC) finalized a deal in October to acquire a 20% stake in Inam from Royal Dutch Shell with the hope that the block's estimated 2 billion bbl of oil reserves are recoverable (IOD Oct.11,p8). Shell kept 5%. Operator BP has 25%, while Azeri state Socar holds the remaining 50%.

Stratic Has North Sea Success

A gas appraisal well on the UK southern North Sea Breagh discovery in Block 42/13 has successfully tested dry gas at a rate of 17.6 MMcf/d, block partner Stratic Energy said Monday. Following a further 12 hour flow period at a controlled rate of 14.3 MMcf/d, the 42/13-3 well is shut in for a pressure buildup survey and will be suspended as a potential gas producer once tests have been completed.

The 42/13-3 hit a possible gas-water contact in line with the original 42/13-2 discovery well, around 1.5 km away, giving a gross gas column of 460 feet, Stratic said. Gas was produced from the Carboniferous reservoir perforated at a depth between 7,332 and 7,447 feet.

"West Breagh has the potential to be a sizable gas accumulation," Stratic chief Kevin Watts said. "The test results prove that the Scremerston sandstone reservoir, which up until now has not been exploited in the southern North Sea, can produce at significant flow rates."

Planning is under way to drill the East Breagh part of the structure in 2008.

Stratic has a 10% stake in the license.

Eni Execs Join Board

Two members of Italian Eni have joined the 10-member board of Gazprom Neft, the oil arm of Russian state Gazprom, following a shareholders meeting Monday, Gazprom Neft said. The two are Eni Vice President for Russian Development Marco Alvera and Chief Operating Officer for Exploration and Production Stefano Cao.

Eni bought a 20% stake in Gazprom Neft at liquidation auctions for bankrupt oil company Yukos this summer. Gazprom, which holds 75%, has an option to buy the Eni shareholding for $3.7 billion, but won't do so over the next year, as it has other budget priorities. The fact that Gazprom has said it would be happy with 51% control has prompted speculation that it may offer some of the Gazprom Neft shares to another strategic investor (IOD Nov 12,p3).

Lukoil Explains Turkmen Delays

Lukoil said it did not sign a deal to develop the Turkmen sector of the Caspian Sea last week because it ran out of time to prepare the necessary documentation.

Lukoil President Vagit Alekperov and his counterpart at US ConocoPhillips, James Mulva, were both in Turkmenistan last week where they aimed to ink production sharing agreements (PSA) for Caspian developments. But a Lukoil spokesman told *International Oil Daily* that a "PSA is rather a voluminous document and there just hasn't been enough

time to prepare it to the end." He declined to comment on the contract that strategic partner Conoco was supposed to seal.

It is understood that the allies planned to sign two separate deals with the Turkmen government. Lukoil was to become operator of the PSA for Block 21, while Conoco was to take a similar role in Blocks 19 and 20, in which Lukoil would participate as a contractor (IOD Nov.16,p4).

Bosporus Firm Takes Shape

The international project company that will build the $1 billion Bourgas-Alexandroupolis oil pipeline is to be registered in the Netherlands by the end of the year, under an agreement reached in Athens last week by the venture's three shareholders, Russia, Greece and Bulgaria.

Press reports quote Bulgaria's regional development ministry as saying a trilateral protocol was signed that will be presented to the three states' legal teams and included in the contract setting up the project firm. Participants also agreed that Russia will provide all the oil.

It had earlier been agreed that a consortium of Russian state-controlled Transneft, Rosneft and Gazprom Neft would hold 51% of the project, with the remaining 49% split equally between Greece and Bulgaria. The Bulgarians will be represented by gas monopoly Bulgargaz and construction firm Technoexportstroy, and the Greeks by Helpe Thraki and the government.

Construction of the 280 km pipeline — which will run from the Bulgarian Black Sea port of Bourgas to the Greek Aegean Sea terminal of Alexandroupolis, bypassing the congested Bosporus Strait — is planned to begin in 2008. Completion of the project, with an initial capacity of 700,000 b/d, is scheduled for 2010. The project company will have to sign agreements with transit countries before construction can begin (IOD Jun.14,p8).

UK Reveals CO2 Storage Sites

Up to 292 offshore sites have been earmarked as potentially permanent homes for UK-generated carbon dioxide (CO_2) emissions. In a statement released Monday by the UK and Norwegian governments and the North Sea Basin Task Force — a joint venture set up by the two governments' energy departments and independent advisers to deal with CO_2 transport and storage issues — the contents of a database of suitable onshore and offshore pipelines has been issued, as well as nearly 300 potential carbon sinks.

According to the UK's Department for Business, Enterprise and Regulatory Reform (BERR), the sink database contains 292 offshore geological storage sites, a mixture of oil fields, gas fields and aquifers. Though some sinks — particularly aquifers — are poorly characterized, the combined CO_2 storage potential in North Sea sinks should be sufficient to meet both UK and Norwegian needs for many decades.

In a statement, BERR said: "To examine these issues, the project team developed a comprehensive database of onshore CO_2 sources and offshore CO_2 sinks. A list of carbon dioxide tolerant pipelines in the North Sea was also developed and the potential for reuse of existing oil and gas infrastructure for carbon capture and storage was explored."

Despite the potential availability of the 292 sink sites, BERR warned that the operational lifespan of the various oil and gas fields and aquifers could lead to severe bottlenecks. "From a starting point of 292 sinks for which data are available, fewer than one in 10 appear attractive options for carbon capture and storage in any given five-year period from 2013-27 (criteria for inclusion includes sink capacity, availability, level of risk, and EOR potential)," BERR said.

Turkey-Greece Gas Start-Up

One-time enemies Turkey and Greece Sunday opened a 300 km pipeline that will provide Greece with 750 MMcf/yr (20.5 Bcf/yr) of natural gas delivered from Azerbaijan's Shah Deniz field via Turkey — marking Europe's first pipeline imports of Caspian gas. Both Turkish Prime Minister Tayyip Erdogan and his Greek counterpart, Costas Karamanlis — along with Azeri President Ilham Aliyev and US Energy Secretary Samuel Bodman — attended the opening ceremony for the pipe, which dates from a 2002 memorandum of understanding.

Capacity on the 3.5 Bcm/yr line, built by Turkey's Botas and Greece's Depa, will rise to 11.5 Bcm/yr and link to the planned 8 Bcm/yr Interconnector Greece-Italy (IGI) pipeline that's backed by Italy's Edison and Depa and is due for start-up in 2012. Edison is negotiating with Azerbaijan to supply 6.4 Bcm/yr to EU its share of the IGI pipe, while Greece is also expected to hike Azeri imports. Azerbaijan started exporting gas to Turkey via Georgia in July (IOD Jul.6,p8).

Both the US and European Union see the Turkey-Greece-Italy link as a means for Europe to diversify gas supplies away from Russia. Gas started flowing last month through the Turkey-Greece pipeline, which Turkey had expected to open in August (IOD Jun.27,p1).

Gazprom Advances China Talks

Talks on sending Russian gas to China by pipeline are advancing, with Russian gas giant Gazprom saying late Friday that it has agreed to accelerate talks with China National Petroleum Corp. (CNPC) on "concrete terms of Russian gas volumes to be shipped to China, through both western and eastern routes."

China's official Xinhua news agency subsequently reported over the weekend that Gazprom Deputy Chairman Alexander Medvedev had said the two sides had reached a deal on the pricing mechanism, if not on the actual prices themselves. Russian sources say Gazprom has succeeded in raising the base price for gas deliveries.

Last year, Gazprom and CNPC agreed on sales of Russian gas to China starting in 2011 through two pipelines — a western line from Siberia and an eastern one. The western route — also known as the Altai scheme — was to draw on gas reserves in West Siberia, but it was unclear which fields would feed the eastern line. Gazprom, however, noted that it would not build anything until it had a sales and purchase agreement in place.

Most analysts now believe the 3 Tcm Kovykta field in East Siberia will become the main source of the Chinese gas. TNK-BP, which is half-owned by UK supermajor BP, was pushed out of the field earlier this year, when government pressure over licensing violations forced it to cede control to Gazprom (IOD Sep.13,p8).

Rio Tinto Exec Moves to BHP

Global miner Rio Tinto said Monday its chief executive for diamonds and minerals, Andrew Mackenzie, was leaving the company to take up a position with rival BHP Billiton. The Australian company, also a substantial oil and gas producer, earlier this month proposed an all-share offer for Rio Tinto that the smaller company rejected (IOD Nov.19,p2).

Mackenzie, who has been with Rio Tinto about two years, will join BHP from November 2008. Preston Chiaro, Rio Tinto's chief executive for energy, will take over responsibility for the company's industrial minerals portfolio.

Surgut Hikes Spending

Faced with stagnating production, Russian oil major Surgutneftegas expects to spend about $3 billion upstream this year, double the shadowy company's investment of roughly $1.5 billion annually over the past five years, Surgutneftegas Deputy Chief Executive Sergei Fedorov told an investor conference last week.

Surgutneftegas, which saw production slip slightly to around 1.3 million b/d in January-September, is renowned for its modest investments, despite a cash pile that some analysts put at upward of $15 billion (IOD Sep.28,p4).

The company is spending more heavily to

develop fields in East Siberia, which it believes will eventually form a cornerstone of production. Work focuses primarily on developing the main Talakan field, where it is spending roughly $780 million this year. It expects to bring the neighboring Alinskoye field on line in 2009, Fedorov said.

Surgutneftegas expects production from the two fields, in the Sakha republic, eventually to reach 140,000 b/d. The Talakan field currently produces just 10,000 b/d.

Surgut also plans to expand into the surrounding Verkhnepeleduyskoye, Severo-Talakanskoye and Vostochno-Alinskoye fields, which may together hold more than 950 million bbl of oil. It is also looking to explore in the prospective regions around Irkutsk, Yakutia and Taimyr.

Americas

BP Sees Mango Start-Up

BP said Monday it has started producing natural gas from its Mango field, off Trinidad and Tobago. Mango gas will supply Atlantic LNG's liquefaction plant for export as LNG to international markets — including the US, as well as the domestic market.

BP said the field is expected to add 750 MMcf/d to the gas volumes it can deliver, plus associated condensate. The UK supermajor holds a 100% interest in the field, which was discovered in 1971 and further appraised in 2000.

The field, in the South East Galeota Block, lies 56 km southeast of Galeota Point in water depths of 72 meters. It has been developed using a single unmanned platform with a capacity to produce from nine wells. Gas is exported through a new seven km subsea pipeline tied into the Cannonball pipeline and then to the Cassia B gas processing hub.

The news come after BP last week made another major gas discovery in its Shah Deniz field in Azerbaijan, paving the way for a second phase of development (IOD Nov.15,p9).

Petrobras Cranks Up Facility

Brazil's state oil company Petrobras said on Monday its new 100,000 b/d production facility on the light oil Golfinho field started producing crude last Friday after a series of delays.

Meanwhile, the start-up of a huge, 180,000 b/d platform on the heavy crude Roncador field, the P-52, which had also been scheduled for the end of last week, remains delayed.

"Golfinho had its first oil on Friday. Roncador is still not producing," a company spokesman said, without elaborating.

Another 180,000 b/d Roncador platform, the P-54, is due to begin operating in the first two weeks of December after a recent start-up postponement. Previously the company had expected it to start producing in the first two weeks of November.

Officials have said the delays were caused by technical problems stemming from the complexity of the deep-sea projects.

The rigs are expected to reach full output within six to eight months after start-up.

Petrobras, which is now producing around 1.8 million b/d, has another three rigs with a total 460,000 b/d capacity scheduled to come on stream next year: one around mid-2008 and two in the second half of the year.

Delays in starting up new rigs this year and pressure problems at some fields have dwarfed Petrobras' projected output growth this year from initial plans of around 10% to less than 3%.

Petro-Canada Locks Out Staff

Petro-Canada said on Monday its Montreal refinery was operating at its full 130,000 b/d capacity after the company locked out 260 union employees over the weekend and replaced them with management.

The company said it had been training managers since September to operate the facility after Local 175 of the Communications, Energy and Paperworkers Union voted to authorize a strike at the plant, which could have occurred with half a day's notice.

"With the risk of strike within 12 hours, we've had to stock up on supplies, make sure that we have a workforce that for the most part is staying in the plant and is qualified to operate the facility," said Jon Hamilton, a spokesman for Petro-Canada, the country's No. 4 oil exploration and refining firm.

The Petro-Canada refinery is one of three in Quebec. Royal Dutch Shell also operates a 130,000 b/d plant in Montreal, while Valero Energy's Ultramar unit has a 215,000 b/d refinery in Levis.

Nymex Launches New Contracts

Nymex Holdings, parent company of the New York Mercantile Exchange (Nymex), said Monday it will launch two new oil-related contracts in February.

The Nymex Crude Oil Backwardation-Contango Index futures contract is based on rolling the first nearby crude oil futures contract to the seventh nearby crude oil futures contract. The roll will be dampened by dividing by six, Nymex said. The first month will be listed for December 2010 expiration.

The second contract, the Nymex Crude Oil MACI Index futures contract, will be based on the arithmetic average of the first six months of crude oil plus the Nymex Crude Oil Backwardation-Contango Index. The first month to be listed will expire January 2011.

MACI stands for MBF Alpha Commodities Index. "MACI, the first index future of its kind, effectively reduces the burden of rolling index commodities forward every month and tracks the effects of contango and backwardation in the markets," Nymex said.

Nymex will list financially-settled futures and options contracts for the MACI, which is a six-month rolling strip index, as well as for the Backwardation-Contango index, Nymex said. The contract value for both products will be $200 times their respective index and the minimum tick size will be 0.05 index points, or $10 per contract.

EXHIBIT B

Vol. 6, No. 226, Wednesday, November 21, 2007

INTERNATIONAL OIL DAILY

Contest for Abu Dhabi Sour Gas Heats Up

Abu Dhabi National Oil Co. (Adnoc) is set to pick the winner of the Shah sour gas development project this week — or next week, at the latest — before turning its attention to the Bab project, where Total is emerging as a front-runner after technical evaluation of its offer, industry and Abu Dhabi sources told *International Oil Daily* Tuesday (IOD Jun.22,p1).

Four companies bid for the Bab sour gas development earlier this year. In addition to Total, they are Exxon Mobil, Occidental and Germany's Wintershall, *International Oil Daily* has learned.

Adnoc decided in June to award the Shah and Bab projects one after the other, after realizing that its earlier plan to award them both by the end of 2007 was too ambitious (IOD Apr.17,p2). After short-listing four companies for Shah, Royal Dutch Shell and Occidental are now the only two left in the contest after Adnoc finished evaluating their technical proposals, the sources said. The other two were Exxon and ConocoPhillips.

Shell has an advantage in bidding for a 40% stake in a 30-year joint venture to develop the gas reserves — which have a high carbon dioxide (CO_2) and high hydrogen sulfide (H2S) content — in the oil-producing Shah field. It has spent several years conducting technical studies for Adnoc on Shah's gas production potential. The oil field itself is operated by Abu Dhabi Co. for Onshore Oil Operations (Adco), in which Shell is a partner with Exxon, BP, Total and Partex.

A win for Shell would be interpreted as a victory for Adnoc, which wants to keep the status quo at the expense of those in the Abu Dhabi energy industry who are promoting change and want the emirate opened up to newcomers. If Oxy wins, it would be the first award to a company from outside the club of old concession holders that have been Adnoc's partners for the past four decades. The only contract awarded outside the two major onshore and offshore concessions has been to Exxon for development of the Upper Zakum oil field last year.

"Bab is more challenging technically than Shah and as a result the economics of the project are expected to come very high," one source said. "Total's technical submission is viewed as the most adapted so far."

In the tender documents issued last year, Adnoc envisaged two production profile scenarios for the Bab reserves — one for 500 million cubic feet per day and the other for 800 MMcf/d — and asked bidders to offer a third with a target production date of 2011-12. Adnoc also expressed a preference for reinjection of both CO_2 and H2S, which some companies considered too risky and hazardous, particularly for the fractured Shah gas reservoirs, but more adaptable to Bab.

Industry sources say the proposed gas sales price was in the range of \$4-\$5 per mil-

(See Abu Dhabi, page 2)

News in Review

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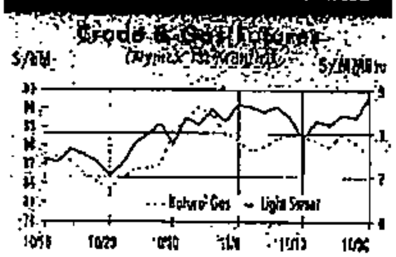
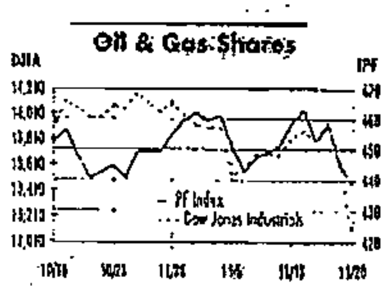
Latest Market Trends





Vitol Pleads Guilty to Oil-for-Food 'Surcharges'

Vitol, the Geneva-based oil trading giant, pleaded guilty Monday to paying illegal kickbacks under the UN oil-for-food program and agreed to pay \$17.5 million in restitution and fines, the Manhattan District Attorney's Office said.

As part of its agreement with the district attorney's office, headed by Robert Morgenthau, Vitol will pay \$13 million into the Development Fund for Iraq and \$4.5 million in fines, forfeitures and legal expenses. Vitol had revenues of \$114 billion in 2006.

Vitol's settlement is the latest development in a series of cases involving illegal payments to Saddam Hussein's government under the UN oil-for-food program.

According to Morgenthau's office, a Vitol agent was told by Iraqi officials in June 2001 that Vitol would no longer be able to buy Iraqi crude unless it paid "surcharges" — essentially a euphemism for illegal kickbacks — directly to the Iraqi government.

Over the next year, until September 2002, Vitol paid \$13 million to Iraq, both directly through an entity called Vitol Bahrain and indirectly through third parties, according to the district attorney's office.

Authorized by the UN Security Council in 1995, the oil-for-food program was intended to use proceeds from Iraq's crude sales to purchase food, medicine and other humanitarian aid for the Iraqi people to alleviate the impact of international sanctions imposed after Iraq's 1990 invasion of Kuwait.

In 2000, Hussein's government began demanding the surcharges that lifters of its oil were required to pay in order to do business with the isolated country. The illegal surcharges were paid to the Iraqi government directly, instead of deposited in a UN-monitored bank account. The program ran from

(See Vitol, page 2)

Chinese Oil Giants Allegedly Dealt with Bank Embroiled in Scandal

Subsidiaries of Chinese state oil giants Sinopec and PetroChina are allegedly among the clients of an illegal underground bank in the southern coastal city of Shenzhen that was shut down by the authorities this summer.

The underground bank, which handled total daily transactions of about 8 million yuan ($1 million), was reportedly operated by a Hong Kong woman out of an apartment in Shenzhen, which lies very close to Hong Kong. Reports over the weekend suggested units of both state oil giants had used the bank to handle payments received for retail fuel sales from service stations in and around Hong Kong. Authorities allegedly found the names of the subsidiaries in the illegal bank's ledgers.

Underground banks sprang to prominence last year when Beijing curbed Chinese state banks' ability to lend money to Chinese stock market investors. Loans offered by illegal banks are now estimated to amount to more than $100 billion a year.

Underground banks also offer higher interest rates on savings than state banks, with deposits by mainland Chinese often transferred to Hong Kong accounts and used to invest in stocks on the Hong Kong exchange (IOD Nov.5,p2).

The government blames such banks for billions of illicit yuan cash flows out of China.

By the time it was closed in August, the Shenzhen-based bank had been operating for more than seven years and had handled more than 4.3 billion yuan ($580 million) since early 2000. At the time, it was reported only that its clients included major state-owned enterprises.

A spokesman for PetroChina tells *International Oil Daily* that the firm is cooperating with the authorities as investigations continue. Sinopec could not be reached for comment. According to local media reports, both firms require transactions to be carried out in yuan, which may be why they needed a financial agency to handle payments received in Hong Kong dollars.

There has also been market speculation that the oil firms' local units were selling more fuel than they were authorized to do in Hong Kong, using the illegal bank to process the payments and cover their tracks. Fuel prices in Hong Kong are higher than in China, where the government controls retail gasoline and gas oil prices.

Chinese Premier Wen Jiabao said Monday that firms — both private and state-owned — that profited from the underground bank business would be regulated. He added that illegal fund flows in Shenzhen alone account for half the total nationwide. "If the illegal fund flow is not controlled, it will affect financial stability in the country, including Hong Kong," he said.

Song Yen Ling, Singapore

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Abu Dhabi...

(Continued from 1)

tion Btu in initial submissions for both projects, due to the high cost of development of the multibillion-dollar projects.

Ruba Husari, Dubai

Vitol ...

(Continued from 1)

December 1995 until March 2003, when a US-led invasion toppled the government of Saddam Hussein.

In 2005, the breadth of the corruption was revealed by a UN investigation, which concluded that more than 2,200 companies involved in the program paid $1.8 billion in illegal kickbacks to Hussein's government.

Vitol pleaded guilty to one count of first-degree grand larceny in New York State Court. "We are pleased to have reached a final resolution of this matter on terms acceptable to all parties," Vitol said in a brief statement. Barry Pollack, an attorney representing Vitol, could not be reached for comment.

The plea agreement is the latest development in a series of cases brought against 12 people and seven companies by US federal and state authorities that are linked to the flawed oil-for-food program.

California-based Chevron reached an agreement earlier this month with federal and New York state authorities under which it will pay $30 million in restitution and fines (IOD Nov.15,p3). In February, El Paso Corp. agreed to pay $7.7 million to settle charges that it indirectly paid $5.5 million in illegal surcharges. And in October 2005 Virginia-based Midway Trading pleaded guilty to paying $440,000 in kickbacks. So far, six people have pleaded guilty to charges stemming from the oil-for-food program, including Texas oil veteran and former Coastal Corp. Chairman Oscar Wyatt, who reached an agreement halfway through his federal trial last month in Manhattan (IOD Oct.2,p1). Both Wyatt and co-defendant David Chalmers are scheduled to be sentenced in federal court in the next month. One person, Tongsun Park, was found guilty following a trial.

Four other defendants — Kathy Miguel and Mohammed Saidji, who federal prosecutors claim worked with Wyatt, Ephraim Nadler, and Benon Sevan, the executive director of the UN program — have not appeared in court and are considered fugitives by federal prosecutors.

"The Oil for Food Program was established by the United Nations with the noble goal of providing for the humanitarian needs of the Iraqi people," Morgenthau said in a statement released Monday. "One outcome of this investigation, and last week's joint investigation involving Chevron, is to ensure that illegal funds that were paid to Saddam Hussein's government are redirected to benefit the Iraqi people." Federal and state authorities are continuing their investigation into abuses under the oil-for-food program.

Ramsey al-Rikabi, New York

Activists Urge UN Energy Sanctions as EU Squeezes Myanmar

Human rights activists have called on the UN Security Council to ban all new investment in Myanmar's oil and gas sector and impose targeted financial sanctions on the country's state-owned entities — including Myanmar Oil and Gas Enterprise (MOGE) — the earnings of which substantially benefit the military.

New York-based Human Rights Watch (HRW) said Monday that, in the absence of concerted international action, countries with economic ties to Myanmar — including European Union members, the US, the Association of Southeast Asian Nations (Asean), China and India — should suspend further oil and gas development.

For now that appears to be a step too far. The EU this week formally adopted fresh sanctions, approved last month, against Myanmar's brutal military leadership in response to its crackdown on peaceful pro-democracy protests in September, although oil and gas is not on the hit-list. French Total is a big investor alongside US Chevron in the Yadana gas and pipeline development — although US lawmakers have been urging the White House to close the loophole that allows Chevron to continue operating despite a decade of US sanctions (IOD Oct.22,p8).

The new EU measures include tougher visa restrictions and an arms sale embargo; a ban on imports of Myanmar's gems, precious metals and timber; and a halt to new investment in its logging and mining industries. European foreign ministers also expanded visa bans and asset freezes against Myanmar's leaders and their families and barred companies or individuals with links to the junta from investing in the EU. Future steps could include more stringent banking sanctions of the type advocated by HRW.

In pushing for international energy sanctions on Myanmar, HRW said, "Lucrative revenues from gas sales allow [Myanmar] to ignore demands to return to civilian rule and improve the country's human rights record. The oil and gas sector is one of the few sectors in the badly managed economy to experience growth in recent years. Funds from this sector help underwrite the military without bringing benefits to ordinary people."

Gas revenues in Myanmar rose by $1 billion from 2005-06, partly due to higher global prices, and are likely to rise further in 2007. Future gas earnings are slated to increase even more when the massive offshore Shwe gas project, led by South Korea's Daewoo, comes on line in 2010. India and China both bid for the rights to buy Shwe gas; Myanmar said in mid-2007 that it was finalizing a deal with China.

"[Myanmar's] generals have used the promise of oil and gas supplies to buy the silence of energy-hungry countries, including China and India," said Arvind Ganesan, director of HRW's business and human rights program. "Those governments should be told their international standing will suffer if they do business as usual" with Myanmar.

According to HRW, 27 companies from 13 countries — Australia, British Virgin Islands, China, France, India, Japan, Malaysia, the Netherlands, Russia, Singapore, South Korea, Thailand and the US — have invested in Myanmar's oil and gas fields. Thirteen of these firms are state-controlled and have stakes in 20 out of 30 current projects.

The lion's share of the contracts were signed after mid-2004, while 10 deals were inked in the past year, signaling the government's move to expand foreign energy investment despite high-profile allegations of human rights abuse. Many of the new concessions have been assigned to firms from China — a permanent member of the UN Security Council — and in some cases the timing of awards coincided closely with political support by the governments whose state-owned companies benefited, HRW said.

"The companies have made it clear they won't stand up for human rights on their own," said Ganesan. "That's why their home governments need to step in and halt the flow of petrodollars that help prop up [Myanmar's] military."

Ⓓ Deb Kelly, London

India Hints at Iran Gas Pipeline Progress, Moves on US Nuclear Deal

India's junior oil minister, Dinsha Patel, told Parliament Tuesday that Indian officials will meet with their Pakistani counterparts "soon" to resolve some of the issues stalling trilateral agreement on the proposed $7.4 billion Iran-Pakistan-India natural gas pipeline.

But Patel made no mention of a deadline, saying only that: "Such multilateral projects involve protracted discussions, as all the aspects have to be carefully examined and deliberated upon to the satisfaction of the participating countries to protect each country's interests and avoid any future problems in successful operation of the project."

Officials of India, Iran and Pakistan said in late June that a binding agreement on the pipeline would be signed over the summer. But Indian officials have attended no talks since August, citing "unresolved bilateral issues" with Pakistan.

The two sides have reached broad understanding on the pipeline tariff India would pay Pakistan for sending gas through the line, but have yet to agree on a transit fee payable on top of the tariff. India boycotted a trilateral meeting in Tehran in September on the grounds it first wanted to sort out the transit fees, and Oil Minister Murli Deora has yet to say whether he will accept Pakistan's invite to talks on Nov. 28-29.

In the interim, Iran and Pakistan have held four meetings and are close to signing a bilateral pipeline deal, possibly next month. Iranian Oil Minister Gholamhossein Nozari said last week that Tehran welcomed India's participation, but set no deadline for New Delhi to join. The head of National Iranian Gas Export Co., Nosratollah Seifi, had earlier given India a four-month deadline (IOD Nov.14,p4).

Iran, Pakistan and India will each build the sections of pipeline in their country. The line would transport 90 million cubic meters per day (3.2 billion cubic feet per day) of gas, of which 30 MMcm/d would be used inside Iran. The remainder would be split equally between India and Pakistan.

Iran hopes to begin gas exports to Pakistan by the end of 2011. Most of the 1,035 kilometer section of pipeline in Pakistan is to connect up local consumption centers; if India were to join, only a small section would need to be built to extend it to the Indian border.

India denies its loss of interest in the project is connected to its signing in July of a controversial civilian nuclear deal with the US, which actively opposes the pipeline. Under the deal, Washington agreed to give New Delhi technology and fuel for nuclear power generation, potentially making gas-fired power less important to India and diminishing the need for Iranian gas.

The nuclear deal triggered a big political battle inside India that threatened the unity of the ruling coalition, with leftist parties against the agreement. But a breakthrough may now be in the cards, with top Indian nuclear officials planning to go ahead with meetings on nuclear safeguards Wednesday with the International Atomic Energy Agency that are critical to the accord.

The change reflects a weakening in the Indian left's bargaining power amid continuing violence by communist elements in West Bengal state. But it also appears to reflect a growing realization within the left that some kind of international framework is needed for India to receive nuclear assistance from other countries, in particular Russia or China, which the left favors.

Ⓓ Ammar Zaidi, New Delhi, and staff reports

Nigeria Allots $560 Million To Commission Charged With Developing Niger Delta

Nigerian President Umaru Yar'Adua has earmarked $566 million for the Niger Delta Development Commission (NDDC) — charged with implementing the Niger Delta Master Plan — in his federal budget proposal for 2008

"[The Niger Delta will become] Africa's most prosperous, most peaceful and most pleasant region by 2020," NDDC's Davies Okarevu told UN news service IRIN. NDDC officials met with regional representatives in the southeastern town of Calabar in mid-November.

The master plan is a reworked set of policies and strategies designed to develop the oil-rich region and tackle poverty over the next 15 years. It was initially laid out in 2004, but implementation has been delayed by disputes over how the envisaged $50 billion budget should be spent and the role of different levels of government, oil companies and other stakeholders in drawing up and implementing programs

The plan is based on three five-year phases, which include specific projects to improve the region's infrastructure, environment and economy, including roadbuilding, sanitation systems and support businesses, the NDDC said.

Most of Nigeria's oil is produced in the southern Niger Delta, yet the 1,500 communities in the region that have become host to oil activities include some of the poorest in the country. Many are crippled by oil spills and other environmental problems.

While some believe the master plan will deliver on the promises, critics say it is unlikely to be carried out effectively by corrupt politicians and the discredited NDDC, created by former President Olusegun Obasanjo in 2001

"One of the key problems is that most of the implementation is left for the authorities other than the NDDC," Willie Okowa, a lecturer at the University of Port Harcourt, told IRIN. "Some 83% of spending and operations comes from local, state and federal governments who have failed to live up to their promises in the past. Forcing implementation is very difficult. The NDDC cannot compel the state government [to comply]," Okowa said

Vice President Goodluck Jonathan has meanwhile set up a committee to ensure that projects and funding are not duplicated and money is not wasted. The vice president is also leading talks with community and militant leaders ahead of a delayed Niger Delta summit intended for later this year (IOD Sep 27,p3).

Ⓜ Deb Kelly, London

Portugal's Galp Positions Itself to Enter Venezuela with Series of New Upstream Deals

Portugal's Galp Energia plans to enter Venezuela's Mariscal Sucre offshore natural gas project and that country's oil-rich Orinoco river belt, under an agreement that was expected to be signed Tuesday with state oil company Petroleos de Venezuela (PDV)

Separately, Venezuela's President Hugo Chavez said his government will sign new agreements with France's Total for the development of heavy crude in the Orinoco River Belt.

Chavez did not provide details of the agreements with Total, and said only that they would take the form of joint ventures between the French major and PDV. Chavez made the announcements Monday in Paris, after meeting with French President Nicolas Sarkozy. Total is already active in the Orinoco belt, where it previously operated the 200,000 barrel per day Sincor project, until earlier this year when the government seized operational control and a majority stake in the project.

Total was forced to relinquish its previous 47% interest in Sincor and received a 30.3% stake in a newly formed joint venture with PDV called Petrocedeno. StatoilHydro was also a partner in Sincor and saw its stake fall to 9.7% from 15% when PDV took majority control of the project. "Venezuela wants to become a safe, trustworthy provider of petroleum and energy to France," Chavez said during his visit to Paris. "France has great technological advancement."

Foreign companies already participating in the certification of Venezuela's Orinoco heavy crude reserves include Russia's Lukoil, China's CNPC, Spain's Repsol YPF, Russia's Gazprom and Lukoil, Iran's Petropars, Brazil's Petrobras, India's ONGC, Cuba's Cupet, Malaysia's Petronas and Belarus' Belorusneft. The Orinoco belt holds an estimated 235 billion barrels of heavy tar sands

The agreement between Galp and PDV that was to be signed on Tuesday followed a memorandum of understanding between the two companies earlier this month that addressed the potential participation of the Portuguese company in the Orinoco region. Besides Orinoco, Galp is expected to explore the possibility of entering Venezuela's Mariscal Sucre project, which has estimated gas reserves of 4 trillion cubic feet in four blocks located in the Paria Peninsula.

The $2.7 billion Mariscal Sucre project is the continuation of the decades-old Cristobal Colon venture that never quite got off the ground. Gas production from Mariscal Sucre was initially earmarked for export as LNG, but the government has recently decided that it should be used at home

As part of the agreement, Galp and PDV will explore the possibility of storing Venezuelan crude in Portugal to support PDV's marketing activities in Southern Europe. PDV might also supply crude to Galp

Ⓜ Patricia I. Vasquez, Washington

Pertamina Looks at Ecuador in Buying Spree

The head of Indonesian state Pertamina says the company is looking to acquire three oil blocks in Ecuador as part of its strategy of picking up new assets abroad.

"They [Ecuador] want us to operate three blocks there, two exploration and one exploitation. We are finalizing the agreements," Pertamina Chief Executive Ari Soemarno told The Jakarta Post last week. State Petroecuador said in July it had signed an initial agreement with Pertamina for several projects to boost oil production. These include the Oglan field in Orellana province, which is said to hold around 35 million barrels of heavy oil. Pertamina will also study a scheme to revive nonproducing oil wells in the Ecuadorean Amazon.

Pertamina has been busy acquiring overseas assets this year, focusing on long-term projects in high-risk areas. "We see more opportunities [in these areas], although it is more risky on some occasions," Soemarno told International Oil Daily in September

Pertamina already holds acreage in the Middle East and Africa (IOD Jun 12,p3). Last month, it announced the acquisition of a 25% stake in Qatar's Block 3 alongside German Wintershall (IOD Oct.10,p2). In July, it won a 15% stake in an offshore oil field operated by China National Petroleum Corp., although development is now stalled (IOD Jul 3,p7).

The company is currently conducting seismic work in exploration Blocks 17-3 and 123-3 in Libya's Sabratah and Sirte basins, and is holding talks with the Iraqi government on developing Block 3 in the Western Desert. "The chances there are still 50-50," Soemarno was quoted as saying Friday. Pertamina is now considering joint development of the block with several potential partners, including Malaysia's Petronas (IOD Apr 30'02,p2)

To date, the firm's only international equity output comes from a joint regional development program with Petronas and state Petrovietnam (IOD Aug 8,p3). But Pertamina remains committed to its strategy of adding high-risk assets to its portfolio. As Soemarno said in September: "We have to take that chance. It may be risky today, but not by the time we find oil."

Ⓜ Erwin Chan, Singapore

Study Cautions Against US Becoming Too Dependent on Foreign Gas

Opening areas currently off limits to drilling and development would not eliminate the need for the US to import significant volumes of natural gas, a new study says.

The study by the Energy Forum at Rice University's Baker Institute for Public Policy found that under a business-as-usual scenario, where US lands are not opened up for drilling, US consumers could depend on LNG imports for as much as 30% of total supply in 2030.

However, such dependence on foreign gas has strong implications for security of natural gas supply, as the US becomes more reliant on LNG from the Middle East and Africa, the report cautioned.

US natural gas demand is expected to climb to 23.9 trillion cubic feet in 2015 and 26.9 Tcf by 2025, up from 20 Tcf in 2006, study forecasts showed. This is equivalent to annual growth of about 1.3%.

"Studies of the market outlook show that our high-cost domestic production will increasingly have to compete against a swath of more competitively priced imports," said Kenneth Medlock, fellow for energy studies at the Baker Institute and a key author of the study released last week. "In the short term, the net impacts on US supply security are not all that worrisome. But long term, as our demand grows, we will have to worry more about security of supply."

Currently, the US imports LNG from a variety of countries, including Trinidad and Tobago, Egypt, Nigeria, Qatar and Algeria.

The Baker Institute's scenario analyses shows that opening restricted areas on the Outer Continental Shelf (OCS) and in the Rocky Mountains to gas development would not render the US energy independent nor would it lower the country's dependence on LNG imports in 2015 by a significant volume.

The US is a major natural gas importer already. About 20% of US gas consumption in 2006 came from imports, mostly pipeline deliveries from Canada. The remainder come in as LNG.

In recent years, environmental and land use considerations have prompted the US to remove acreage from energy development. Twenty years ago, nearly 75% of federal lands were available for private lease to exploration companies. Since then, the share has fallen to 17%.

Given the importance of the changing outlook for North American natural gas supply and US oil and natural gas prices, the Baker Institute embarked on a two-year study, "Natural Gas in North America: Markets and Security," to investigate the future development of the North American natural gas market and the factors that will influence security of supply and pricing.

Longer term, the study found, an opening of restricted areas to drilling and the contribution of expanded OCS and Rocky Mountain gas production could be geopolitically important in combating the rise of a cartel in the international natural gas market.

"Reducing US demand for LNG helps lower global natural gas prices and enhances available supplies for other major buyers in Europe and northeast Asia," the report stated. "The wider swath of alternative supplies for Europe and northeast Asia translates into significantly reduced market power of producers in Russia and the Middle East."

A key finding of the study was the surprising revelation that a relaxation of drilling restrictions could have significant impacts on the potential flow of gas from Alaska to the lower 48 states. Under a business-as-usual scenario with greater resource development in the lower 48, the study showed that development of the Alaska pipeline would be delayed because of the decreased need for Arctic gas in the supply mix.

The study was released at the "Natural Gas in North America: Markets and Security" conference at the Baker Institute.

Barbara Shook, Houston

MARKET EYE: Urals Prices Ease

Brent crude oil futures are in recovery mode. Late Tuesday, January Brent was trading at \$94.85 per barrel, up \$4.15 on the week. Dated Brent was assessed at January futures plus 20¢. The strengthening crude prices undermined refining margins. An incremental barrel of Urals Tuesday posted a \$3.50 profit in a simple Mediterranean refinery, down 50¢ from the week before, while the same barrel in a cracker made \$5.65, for a loss of \$1.65 over the week.

But Urals prices eased in Northwest Europe, where lack of buying interest led to a late-Tuesday assessment of dated Brent minus \$2.65 cif Rotterdam. In the Mediterranean, bids and offers in Platts' window yielded an assessment at dated Brent minus \$2.05 cif Italy.

Exports out of the Russian Black Sea terminal of Novorossiysk totaled 578,000 tons on six tankers over the past six days — up 309,000 tons from last week, when bad weather hampered sailings. Four other tankers are waiting to load 320,000 tons, and another six vessels are scheduled to arrive over the coming nine days for a further 623,000 tons.

Exports out of the CPC terminal fell by 124,000 tons to 440,000 tons on four ships. One tanker is waiting to load 136,000 tons, while eight more are expected over the next seven days for a total of 735,000 tons. Odessa exported 160,000 tons on two tankers.

Export volumes out of Primorsk in the Baltic Sea declined by 500,000 tons to 1 million tons on 10 tankers from last week's high of 1.5 million tons. Two other ships were loading 205,000 tons and eight more are expected to arrive over the coming reporting period for a further 735,000 tons.

Russian product supplies in NWE are reportedly tight. Some Russian refinery restarts are delayed and high export prices have led to shortages at home. Although companies have diverted some exports to meet domestic demand, some filling stations have closed temporarily. Exports of Russian 0.2% gas oil were relatively thin in the Baltic, with shipments for South America continuing to leave Europe. Loadings of 50 parts per million diesel were described as nonexistent.

Supplies to the Mediterranean were even tighter: One Black Sea gas oil cargo changed hands on Nov. 19 for a premium of \$42 per ton.

The onset of winter has also affected the fuel oil market, with Russian exports falling as a result of higher export duties and higher domestic prices. Northern ports are not yet iced over, but traders say it is a possibility.

Bunker demand in NWE is weaker, and backwardation in the high-sulfur fuel oil market — with prompt prices higher than prices further out — is flattening. While there is some talk of December very large crude carrier fixtures for Asia from NWE and another 135,000 ton cargo was fixed over the week from the Baltics, traders believe arbitrage opportunities to Asia are limited.

Axel Busch and Zoe Double, London

Crude, Heating Oil Rocket to New Highs in Advance of EIA Data

Energy prices rallied on Tuesday as heating oil set a new record and US crude futures set a new settlement high just above $98. Due to the US Thanksgiving holiday on Thursday, trading on Wednesday is expected to be slow, but Tuesday's big price gains underscore the strength and volatility of oil's recent bull run.

Heating oil led Tuesday's late-day rally. Prices on the New York Mercantile Exchange (Nymex) hit their highest level since heating oil began trading in 1978, mirroring strength in the European products market. Traders also pointed to the dollar's weakness against the euro as a factor that supported prices — a popular, though much-debated explanation for oil's recent strength.

Influential investment bank Goldman Sachs downplayed the dollar's role in crude's rise. "We believe that the currency impact on crude oil prices has been minimal and maintain that cyclical and structural factors have been the primary drivers behind the recent crude oil price rise," Goldman said in its Energy Weekly report.

The market is focused now on weekly inventory data from the US Energy Information Administration, which will be released on Wednesday and is expected to show an increase in crude stocks of at least 1 million barrels. Distillates, which includes heating oil, are expected to fall by 500,000 bbl.

Nymex crude jumped $3.39 to close at $98.03, a settlement high. Brent on ICE Futures closed up $3.21 at $95.49.

Nymex heating oil closed up 8.55¢ at $2.6901, after easing back from a record high of $2.6932.

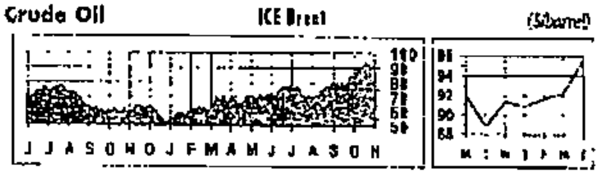
Ramsey al-Rikabi, New York

Daily Oil & Gas Price Review

Prices for Tuesday, November 20, 2007

Crude Oil

ICE Brent ($/barrel)



US Domestic Crudes ($/barrel)

Cash/Spot	Change	Spot Price	5-Day Avg.	Month-Ago
WTS (Midland)	+4.16	95.93	89.43	76.63
LLS (St. James)	+2.66	99.43	96.37	86.66
Mars (Cushing)	+1.91	89.78	87.43	72.05
ANS (California)	+3.41	97.03	92.75	84.97
Kern River (LA)	-0.45	82.35	87.45	77.15

Crude Oil Futures — Prompt Month ($/barrel)

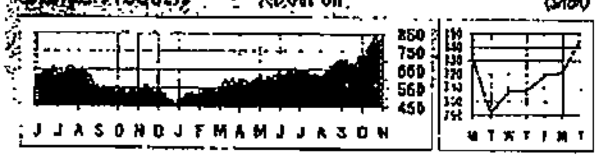
	Change	1st Month	5-Day Avg.	2nd Month	3rd Month
ICE Brent	+3.21	95.49	92.58	94.95	94.46
Nymex Light Sweet	+3.39	98.03	95.56	96.19	95.14

International Crudes ($/barrel)

Cash/Spot	Change	Spot Price	5-Day Avg.	Month-Ago	Year-Ago
Brent (Dated)	+2.54	95.67	92.25	83.61	56.57
Dubai	-1.13	89.89	86.62	77.76	49.54
Oman	-0.75	87.61	86.44	75.94	58.63
WTI (Cushing)	+3.41	99.03	95.35	85.32	59.90
Opec Basket[A]	+1.17	88.71	88.56	82.23	54.91
Arab	+0.77	95.62	95.64	87.51	53.92
Bonny	+0.77	97.37	97.39	89.91	61.17
Forties	+2.24	93.63	91.74	82.35	56.93
Urals	+2.54	95.72	93.54	84.42	57.08
Bonny Light	+3.04	96.72	92.63	84.95	58.63
Urals	+2.54	91.87	89.49	79.65	53.38

Refined Products

IPE Gas Oil ($/ton)



Heating Oil/Gasoline Futures — Prompt Month

Futures	Change	1st Month	5-Day Avg.	2nd Month	3rd Month
Nymex (¢/gal)					
RBOB Gasoline	+4.97	245.45	238.30	245.00	241.35
Heating Oil	+8.53	269.01	260.77	270.26	268.55
IPE (London)					
Gas Oil ($/ton)	+24.50	845.75	820.25	836.75	821.50
Gas Oil (¢/gal)	+7.78	268.49	263.47	265.63	260.75

Product Spot Markets

	US Gulf Coast Change	Spot Price	5-Day Avg.	Month-Ago	New York Change	Spot Price	5-Day Avg.	Month-Ago	Rotterdam ($/ton)[F] Change	Spot Price	5-Day Avg.	Month-Ago
Gasoline (¢/gal)												
Regular Gasoline	+6.00	241.75	235.89	209.50	+6.95	250.50	243.04	217.10	+13.00	827.00	814.00	727.00
Premium Gasoline	+6.00	254.00	246.84	222.75	+8.25	257.50	249.59	231.05	+13.00	827.00	814.00	729.00
Regular RBOB	+7.53	244.50	231.96	210.50	+7.05	241.50	243.89	211.10	--	...	--	...
Mid-Distillates (¢/gal)												
Heating/Gas Oil[B]	+9.05	264.20	254.87	225.55	+9.05	257.55	250.69	220.65	+28.25	868.50	835.15	715.00
Low Sulfur Gas Oil/Diesel[C]	+8.05	272.45	263.99	233.15	+9.25	271.20	269.09	235.65	+28.25	929.50	895.95	752.00
Jet Fuel	+9.03	275.93	266.89	236.55	+9.05	273.55	271.04	240.40	+28.25	944.50	914.15	802.00
Fuel Oil ($/bbl)												
1% Sulfur	+2.00	75.37	74.15	65.75	-2.16	76.12	71.45	59.25	+14.00	475.00	461.45	131.00
3%-3.5% Sulfur	+2.50	73.97	72.31	64.03	+2.00	74.33	72.07	65.47	+14.00	474.00	461.30	432.00

Natural Gas

		Change	1st Month	2nd Month
US — Henry Hub (Nymex)	$/MMBtu	-0.318	7.477	7.858
US — Henry Hub (Cash)	$/MMBtu	-0.540	6.207	6.295
UK — NBP (Cash)	p/th	+1.30	55.00[E]	...

Product Spot Markets

Light Ends	Singapore Change	Spot Price	5-Day Avg.	Month-Ago	Mideast Gulf Change	Spot Price	5-Day Avg.	Month-Ago
Naphtha ($/ton)	-0.12	9.39	89.44	83.00	+16.76	818.75	798.86	708.35
Regular Gasoline ($/bbl)	-0.56	100.34	98.40	90.25	...	--	...	--
Mid-Distillates ($/bbl)								
Gas Oil	+1.45	107.85	105.92	96.45	+2.05	120.61	102.00	97.79
Jet/Kerosene	+0.50	112.65	110.53	97.90	+1.26	111.43	112.09	97.93
Fuel Oil ($/ton)								
3% 380cst	+2.40	501.40	497.07	459.25	+9.70	465.78	482.08	410.85

Produced by Oil Daily in cooperation with Reuters.

Notes: All spot assessments are bid prices published by Reuters at 5:30 p.m. ET; changes are from previous published price.
A—Opec basket price is for previous day. Month-ago figure is 20-day average.
B—No. 2 Heating Oil in US; 0.2% Gas Oil in Rotterdam.
C—No. 2 Low Sulfur Diesel in US; Ultra Low Sulfur Diesel in Europe.
D—Low pour.
E—High pour.
F—All Rotterdam prices are f.o.b. barge assessments.
G—Day ahead.

NEWS ALERT

INTERNATIONAL From staff and wire reports

Mideast/Africa

KRG Hits Back at Baghdad

The Kurdistan Regional Government (KRG) of northern Iraq continued its war of words with the central Baghdad government Tuesday, issuing a statement in response to Oil Minister Hussein al-Shahristani's threat last week not to work with oil companies that sign deals with the KRG (IOD Nov.15,p8).

In the statement, the KRG said "we neither expect nor accept threats, sanctions and punishments from partners in our coalition government in Baghdad." It accuses al-Shahristani of failing to "spend even one-quarter[of the annual federal budget allocated to his ministry."

By contrast, it claims, the "oil exploration contracts signed by the KRG will create an additional 1 million b/d of oil to enhance the much-needed revenues to all the people of Iraq in the near future."

It says the contracts it has signed are "both constitutional and legal within the framework of the Kurdistan Oil and Gas Law, the only existing framework regulating our oil industry in the post-Saddam era." It goes on to say that the KRG has "managed to create an investment-friendly business environment. Empty threats and talk of blackmail will not last."

Sweden's PA Buys Congo Stake

Sweden's PA Resources said Tuesday it has inked a deal with US-based Murphy Oil to take a 35% stake in the Mer Profond Sud permit, including the Azurite field, offshore Congo (Brazzaville). The deal will add 26 million bbl of recoverable reserves to PA's portfolio.

The Stockholm-based company will pay $110 million in cash plus an additional $23 million for two exploration wells. There will be a performance-related adjustment one year after the start of production.

PA is already active offshore Congo as operator of Block Marine 14. The new block is in the Lower Congo Basin next to Angola's deepwater Block 14 and Congo's Haute Mer permit. The Azurite field, which has estimated recoverable reserves of 75 million bbl of oil — 26 million bbl net to PA — is expected on stream in the second half of 2009 with expected peak production of 40,000 b/d. The Mer Profond Sud permit also includes a large exploration block with 19 undrilled prospects and identified leads. Four are at drill-ready status.

Murphy retains a 50% interest in the permit and the Azurite field, and will remain operator (IOD Sep 24,p7). The other partner is state-owned SNPC with 15%.

Turkey, Iran Plan Power Link

Turkey and Iran have rubber-stamped a $1.5 billion deal to build a 2,000 MW power link between the two countries. The link — which would increase cross-border capacity to 2,250 MW — could be commercially operational in less than two years, Reuters reported Tuesday, quoting a Turkish energy official.

The Turkish official said the $1.5 billion cross-border project would be supported by peak period electricity sales contracts between the neighboring countries.

In August, Turkish Energy Minister Hilmi Guler signed a deal with Iran to import 3 billion-6 billion kWh of electricity annually. The planned interconnector will transport the majority of the imports, as current cross-border capacity consists of a twin-cable 250 MW link. Media reports suggest the agreement involves the construction of up to 6,000 MW of gas-fired generation and up to 10,000 MW of hydropower capacity in both countries. The Turkish energy ministry was unavailable for comment Tuesday.

Turkey has cross-border interconnector links with Bulgaria, Azerbaijan, Iran, Georgia, Syria and Greece. The country imports about 75% of its energy needs, including oil and gas. Roughly 25% of its electricity is generated from hydropower stations.

Saudi Death Toll Rises

Officials from state giant Saudi Aramco reportedly said Tuesday that the death toll from a natural gas pipeline explosion last weekend had risen to more than 40. Earlier reports said the fire, which broke out early Sunday during maintenance work, had killed 28 people, while 12 were missing (IOD Nov.20,p3).

The fire did not disrupt gas supplies, and Saudi officials have ruled out terrorism as the cause of the blaze.

Exxon Signs New Libyan Deal

Libya's National Oil Corp. (NOC) said Tuesday it has signed a memorandum of understanding with Exxon Mobil to explore contract Area 21 in the offshore Sirte Basin. The deal will last for five years, NOC said, and requires Exxon to pay a signature bonus and fund a training and education program.

Stock Market Scorecard

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Eni	[illegible]	[illegible]	[illegible]	+3.16	[illegible]	[illegible]
Eni	[illegible]	[illegible]	[illegible]	[illegible]	+37.82	[illegible]
Marathon	59.39	[illegible]	-0.31	-3.60	+33.09	[illegible]
Exxon Mobil	87.87	-0.60	-4.27	-7.14	+22.76	+18.60
Chevron	87.91	-1.14	-1.20	-4.19	+30.00	+19.54
Statoil	32.12	-0.44	+1.35	-4.69	+36.66	+22.05
Norsk Hydro	13.83	-0.33	-2.61	-8.25	+74.52	+31.72
Shell-A	82.21	-1.49	-3.17	-4.92	+13.00	+16.13
Shell-B	81.60	-1.76	-3.37	-4.31	+17.33	+14.66
Repsol YPF	37.24	-1.33	-4.19	-2.40	+1.33	+7.94
ConocoPhillips	79.29	-3.37	-4.21	-9.91	+21.62	+10.20
Petro-Canada	52.79	-3.52	-4.08	-4.57	-15.95	+28.43
BP	71.41	-4.59	-4.31	-5.53	+7.42	+7.02
IP Fiddex	[illegible]	[illegible]	[illegible]	-2.47	+12.84	+15.52
Large Producers						
Occidental	71.56	+4.54	+4.40	+1.65	+51.18	+36.02
Apache	103.54	+2.70	+2.79	+5.80	+56.66	+33.27
Murphy Oil	73.04	+0.95	+1.32	-4.12	+51.52	+41.68
Anadarko	57.13	-0.31	-0.02	-4.00	+25.21	+31.50
XTO Energy	63.53	-2.15	-3.24	-3.65	+35.28	+35.87
EOG Resources	82.72	-2.18	-3.33	+1.89	+25.84	+34.86
Chesapeake	38.67	-1.51	-3.33	-4.13	+37.36	+31.95
EnCana	57.88	-2.01	-3.98	+1.30	+42.94	+42.73
Nexen	47.77	-2.49	-4.93	-3.20	+37.10	+20.36
Devon Energy	84.51	-4.80	-5.26	-4.43	+32.43	+28.97
Canadian Natural	74.58	-4.07	-6.13	-6.66	+42.63	+50.79
Newfield	50.57	-2.18	-4.83	-6.30	+12.44	+10.45
Talisman	18.47	-7.58	-12.96	-20.95	+11.07	+8.71
Refiners						
Frontier Oil	45.84	+1.39	+2.60	+5.55	+55.14	+50.00
Tesoro	55.90	-0.49	-4.84	+7.09	+77.57	+72.72
Sunoco	68.48	-2.01	-2.66	-2.05	+5.40	+9.65
Valero	68.73	-2.16	-3.14	-4.35	+37.32	+30.47
Alon	32.18	-5.09	-14.43	-15.49	+1.55	+14.71
Holly	49.15	-13.67	-21.76	-27.51	+3.54	-4.39
Integrated Energy						
Duke Energy	19.90	+1.00	+5.24	+5.29	+19.52	+5.49
Sempra	63.16	+0.96	+2.59	+7.27	+35.31	+9.14
Williams	34.38	-1.07	-3.09	-1.23	+41.55	+32.39
Oneok	48.45	-2.66	-1.20	+6.79	+16.38	+12.36
TransCanada	37.69	-2.43	-5.77	+1.53	+22.55	+13.56
El Paso	15.70	-1.20	-2.32	-5.32	+16.55	+6.92
Enbridge	34.97	-5.93	-13.76	-5.16	+9.56	+7.47
Service Companies						
Transocean	122.33	+0.74	+0.63	+4.43	+65.47	+51.80
GlobalSantaFe	87.45	-0.12	-6.15	+4.27	+58.86	+40.87
Nabors	27.56	-0.02	-1.50	-2.55	-12.75	-7.45
Patterson-UTI	19.64	-0.36	-1.80	-3.21	-15.34	-15.45
Ensco	53.49	-1.54	-1.89	-4.04	+13.05	+7.65
Schlumberger	93.26	-2.57	-3.01	-24.45	+47.94	+47.66
Baker Hughes	83.55	-2.81	-3.33	-5.40	+18.16	+9.23
Halliburton	37.14	-3.34	-5.21	-5.44	+14.81	+19.61
Emerging Markets						
Petrobras (Brazil)	165.00	+11.30	+32.06	+31.46	+130.59	+103.90
Sasol (S. Africa)	54.58	+5.09	+11.53	+10.09	+50.91	+47.40
Cosan (Brazil)	16.55	+0.35	+4.10	+1.73	+45.43	+58.73
[illegible]	[illegible]	-0.50	-7.52	-4.57	+6.59	-2.40
[illegible]	[illegible]	[illegible]	[illegible]	+1.69	-5.09	-12.38
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	-19.16	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	-7.53	+35.05	[illegible]
[illegible]	[illegible]	-3.39	[illegible]	-8.57	+24.81	+10.61
Sinopec (China)	[illegible]	-10.32	-11.67	-14.55	+102.78	+55.65
CNOOC (China)	170.25	-31.74	-15.71	-11.30	+103.12	+79.92
PetroChina (China)	190.20	-60.40	-23.45	-13.50	+73.56	+35.59

Note: [illegible]

The new acreage is located adjacent to offshore exploration Area 20, which Exxon won in Libya's last Epsa-4 licensing round and contains four blocks (IOD Feb.8,p8). Unusually, Tuesday's award falls outside an NOC Epsa-4 tender; the results of the current Epsa-4 bid round, in which offshore areas 22 and 23 are on offer — also adjacent to Area 21 — will be announced in Tripoli Dec. 9. Exxon is among the qualified bidders for the round.

The US supermajor's vice president for African operations, Kevin Biddle, told a recent conference in South Africa that Exxon was looking to build its position in Libya. "We're back and we hope to establish a significant position there in future," he said.

Asia-Pacific

Korean Imports Dip 3.8%

South Korea's crude oil imports fell 3.8% in October to 2.3 million b/d, according to latest data.

Volumes from Saudi Arabia, the country's largest supplier, dropped 16.1% from the previous year to 578,000 b/d. Imports from Australia and the Neutral Zone shared by Saudi Arabia and Kuwait also dropped by 32.2% and 49.1%, respectively. But supplies from the United Arab Emirates rose by 20.3% to 457,000 b/d, and from Iraq more than doubled to 167,000 b/d. South Korea imported little African crude during the month except for 67,000 b/d from Algeria.

South Korea's Top 10 Crude Suppliers

('000 b/d)	Oct. 2007	Oct. 2006	Vol. Chg.	% Chg.
Saudi Arabia	578	689	-111	-16.1%
UAE	457	380	77	20.3
Kuwait	264	292	-28	-9.6
Iran	262	267	-5	-1.9
Iraq	167	61	106	173.8
Qatar	144	132	12	9.1
Australia	84	124	-40	-32.2
Algeria	67	54	13	24.1
Neutral Zone	58	114	-56	-49.1
[illegible]	42	61	-19	-31.1
Others	180	221	-41	-18.6
Total	2,503	[illegible]	[illegible]	[illegible]

Europe/FSU

DNO Completes Norwegian Wells

Norway's Det Norske Oljeselskap, the operating subsidiary of DNO, said Tuesday it has finished drilling exploration well 15/12-18S and sidetrack well 15/12-18A in the PL 337 license in the Norwegian North Sea. The wells are now being plugged and abandoned.

DNO, operator of the PL 337 license with a 45% interest, said it made two oil discoveries in the Paleocene reservoir rocks. The Storskrymten prospect is estimated to have recoverable reserves of 9 million-44 million bbl. "The oil can possibly be produced to Petrojarl Varg about 17 km south of Storskrymten," DNO said. Further analysis is necessary to determine whether an appraisal well needs to be drilled.

Pertra, recently merged with DNO, announced the first discovery in early October (IOD Oct.1,p9).

DNO's partners on the license are Dana Petroleum with 25%, Revus Energy with 20% and Bridge Energy with 10%.

UK Group Unveils Contract Ideas

An initiative to simplify the contracting process between purchasers and suppliers in the UK oil and gas industry was launched Tuesday by industry body Oil and Gas UK.

Oil and Gas UK's supply chain forum comprising representatives from most North Sea operators, contractors and related trade associations, unveiled three documents it said would offer "major cost and time savings for both parties by eliminating duplication of effort and information."

The guidelines cover marine construction, topside support and well services agreements, and add to existing documents for the drilling industry, Oil and Gas UK said.

"We envisage approximate savings in the region of £25,000 to £50,000 ($51,300 to $102,600) per bid and given the volume of spending across the industry, this will translate into savings running into millions of pounds annually," Oil and Gas UK supply chain forum head Ian Donaldson said.

Russia-Finland Link Dies

Finland's highest court — the Supreme Administrative Court — has upheld a decision not to grant United Power a license to lay an undersea cable from Russia to Finland. The ruling — which is unchallengeable under Finnish law — could be the final nail in the coffin for United Power's planned 1,000 MW interconnector project.

In December 2006, Finnish Trade and Industry Minister Mauri Pekkarinen said the €1.5 billion ($2.2 billion) needed to upgrade the Finnish electricity network was too prohibitive. He added that even if the money were found to allow the Finnish network near the landing point to handle the increased import volumes, United Power — a Finnish subsidiary of Russian state-owned utility Rosenergoatom — had failed to prove it could deliver uninterrupted supply through the 1,000 MW interconnector.

The cable was to have run from Kernovo at the southeast end of the Gulf of Finland, near the Russian Sosnovyi Bor nuclear power plant, to Kotka in the southwest of Finland.

Finland currently imports electricity from Russia via a 1,300 MW cross-border link. United Power was set up to oversee the now defunct 1,000 MW interconnector project.

EU OKs Kazakh-Rompetrol Deal

The European Commission has given final approval for Kazakhstan's state Kazmunaigas (KMG) to buy a 75% controlling stake in Romania's Rompetrol, clearing the last hurdle for the deal to go ahead.

"The commission's investigation found that the proposed transaction would not impede effective competition in the European Economic Area or any substantial part of it," Brussels said Tuesday. "The parties' activities in Europe are complementary."

There are no vertical integration issues as the Kazakh firm's share of upstream production is not large enough. "Moreover, on the downstream markets Rompetrol has low market shares, except in the Romanian markets for the non-retail sale of diesel and LPG. On these markets it faces competition from substantial alternative suppliers, including Petrom, Lukoil and Rafo," the commission said.

When the deal was announced in August, KMG was expected to pay $2.7 billion for the 75% stake (IOD Aug 28,p2). The remaining 25% belongs to Swiss-based Rompetrol Holding, controlled by Romanian oil tycoon Dinu Patriciu.

Statoil Quits Faroese Retail

StatoilHydro Tuesday agreed to sell its Faroese oil retail business to Megd investment company, a local firm part-owned by Foroya Banki retail bank, effective from Dec. 19. Both sides agreed not to disclose price.

The Norwegian firm undertook to sign an agreement to supply the new Faroese marketer, which retains the rights to use Statoil's brand for a further 18 months, with oil products, including aviation fuel and lubricants. It will also continue to supply the Faroe Islands' Vagar airport with Jet-A1 aviation fuel. Statoil had a retail market share of just over 50% in the

Faroes, a self-governing region of Denmark. Statoil's upstream business is unaffected by the change: last year it drilled a dry hole (IOD Oct.18'06,p8).

Last month, operator BP, partnered by Royal Dutch Shell and Anadarko, was cleared to drill an exploration well in its license area, using the semisubmersible rig *Transocean Rather*. The Faroese industry ministry said the drilling operation was expected to last three months. It also said a third licensing round is under preparation.

ICE Gas Oil Breaks Record

The ICE gas oil front-month contract hit a record high Tuesday, with December reaching $852/ton in intraday trade — more than $10 above the previous record set on Nov. 7. A cold snap across Europe has started to bite, and Brent crude futures gained almost $2/bbl on the day on talk of a US interest rate cut.

Prices have been well supported through October and November on the back of heavy maintenance, and the cracker at OMV's Burghausen refinery is now reportedly late coming back on line (IOD Nov.7,p5). The front-month has settled above the $800/ton ceiling virtually every day since Nov. 2.

Even though French Total's 324,000 b/d Gonfreville refinery and the 197,000 b/d Mazeikiu Nafta plant in Lithuania restarted this week, market backwardation — with prompt prices higher than those further out — has prompted traders to sell and inventories remain low. Gas oil futures are particularly volatile, with Europe switching from 0.2% sulfur content in heating oil to 0.1% on Jan. 1, 2008, keeping stocks even lower.

Conoco Scraps Refinery Sale

ConocoPhillips has canceled plans to sell its Whitegate refinery in Ireland.

"We've elected to retain the refinery versus selling it," said a Conoco spokesman. "The company sees more value in continuing to operate the facility than selling it."

Conoco started looking for buyers for the 71,000 b/d refinery earlier this year.

The company spokesman declined to comment on whether any bids had been received for the plant.

Americas

Petro-Canada Eyes Arctic Yamal

Petro-Canada may swap assets with Russia's gas export monopoly Gazprom as it wants to get a foothold in Russia's Arctic Yamal Peninsula, an executive from the Canadian company said on Tuesday.

"We would consider asset swaps to develop upstream opportunities in Yamal," the firm's vice president for business development, Graham Lyon, told reporters on the sidelines of a Moscow gas conference.

Heavy oil assets were Petro-Canada's potentially swappable assets, he said.

Gazprom holds most of the gas reserves on Yamal and has previously said it will not invite foreign investment to develop the fields.

But Royal Dutch Shell Chief Executive Jeroen van der Veer told Reuters earlier this month that Shell was looking to conduct exploration in the region, while market sources at the conference said BP was also looking at Yamal.

"Petro-Canada is relatively small compared to Shell or BP, so we probably won't be picked [for Yamal]," Lyon said.

"But we are willing to invest in Russia, and are also looking at opportunities in West Siberia and the shelf," he added.

Industry analysts say Yamal's development will dwarf Shtokman, another giant deposit, located in the stormy Barents Sea. Yamal holds around one-third of Gazprom's reserves, or more than 10 Tcm of gas.

Canada September Output Slips

Canadian oil supplies slipped in September after hitting record levels in August, according to data released by Statistics Canada. However, output was still higher than in any other month since March and easily beat September 2006.

Total oil production fell by 175,000 b/d from August's 3.5 million b/d high with about half the drop occurring because of maintenance at the eastern offshore Terra Nova field and the Suncor oil sands mining operations, which each fell by 40,000-45,000 b/d.

A similar decline happened at Alberta's other oil sands projects that fell by a combined 40,000 b/d, while Alberta's conventional oil production lost about 50,000 b/d on the month.

Oil Sands Lift Canada Reserves

Canada's crude oil reserves grew 33% in 2006 due to companies booking resources as they developed new oil sands projects and expansions, the industry's main lobby group said on Tuesday.

Meanwhile, the country's natural gas reserves were relatively flat for the seventh straight year, the Canadian Association of Petroleum Producers (Capp) said.

Established minable oil sands reserves increased by 45% to 8.9 billion bbl last year as Canadian Natural Resources booked resources at its Horizon project in northeastern Alberta, CAPP said.

New projects and expansions boosted reserves from in situ or steam-injection projects by 90% to 4.7 billion bbl.

The established reserves represent just a fraction of Alberta's overall oil sands resources, which have been estimated as high as 174 billion bbl.

The unconventional oil sands resources are the target of more than $100 billion worth of investments meaning more reserves will be recognized as established as new developments get closer to fruition.

Extending a long-term trend in Western Canada, conventional crude oil reserves slipped 5% to 3 billion bbl as new discoveries replaced just 60% of production.

US Unfazed by Dollar-Bashing

US Energy Secretary Samuel Bodman said Tuesday the US was not concerned about the debate within Opec on whether it should seek an alternative to the dollar for pricing oil.

The slump in the US currency to record lows on global markets has hit export revenues of oil exporters because oil is priced in dollars. The dollar's decline has prompted suggestions from Iran and Venezuela that the oil exporting group should drop the dollar and price oil against a basket of currencies.

Asked whether the dollar discussion was giving the US cause for concern, Bodman said: "No."

Bodman also said Tuesday at a meeting in London that Opec should increase production at its next meeting in Abu Dhabi in December.

Huge Fine Sought Against BP

Some victims of the fatal explosion at BP's refinery in Texas City in 2005 asked a judge on Tuesday to impose a $1 billion fine in exchange for the company's agreement to plead guilty to one felony, their lawyer said.

In a motion filed in US District Court in Houston, attorney David Perry said 12 victims objected to the $50 million fine the judge was considering for one felony violation of the Clean Air Act as agreed by prosecutors and BP and announced on Oct. 25 (IOD Oct.26,p7).

Fifteen workers died and more than 170 were injured in the accident on Mar. 23, 2005, which investigators blamed on inadequate operating practices and poor maintenance.

Formal sentencing was scheduled for Nov. 27, and Perry said he wanted to make his arguments for a greater fine in person to the court that day.

Perry said BP made $1 billion in profits in the 14 months before the accident and should forfeit that money.

The filing also asked that US District Judge Gray Miller, who is presiding over the case, be disqualified because, at the time of the accident, he was a partner in Fulbright & Jaworski, the Houston law firm that represented BP in legal proceedings arising from the blast.

Fire Cuts Shell Canada Output

Royal Dutch Shell said on Tuesday that some operations at its Scotford refining complex near Edmonton, Alberta, had resumed after a fire on Monday at its oil sands upgrader. Company spokesman Randy Provencal said Shell's 98,000 b/d refinery and its 155,000 b/d upgrader were running at reduced rates while its chemical plant was operating normally. Construction of an expansion to the upgrader was also continuing normally.

On Monday, a fire ignited after a release of light hydrocarbons and deadly hydrogen sulfide gas at the upgrader, which converts tar-like bitumen from the oil sands into refinery-ready crude. There were no injuries.

Provencal said the upgrader's two residue hydroconversion units had been shut down after the fire.

"Those are our two biggest units," he said. "When those two are off line there is a significant reduction in production."

He said an atmospheric vacuum unit was still producing some synthetic crude but no volume figures were available.

The refinery, North America's newest, produces gasoline, jet fuel, diesel, propane and butane. It is supplied with oil from the upgrader.

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- **Global Oil Price Forecasts: Oil price forecast ratcheted up**

We raise our oil price forecasts in three parts. Compared to our previous targets we raise Brent oil's Q4'07 average by 19% to $82.30 per barrel (WTI +28% to $85.50b). Annual averages in 2007-'09 rise 6%, 13%, and 23% to $74b for Brent in 2008. We also inflated our normalized prices significantly to $73 Brent and $75b WTI in 2012 dollars.

- **European Oil & Gas: Raising estimates – lengthening the view**

We have raised our '08-09 earnings forecasts for the integrated sector by an average 3.5% but raised '10-12 by an average 30%. We have raised price targets by an average 7%. Our two favoured names are TOTAL and BG. In E&Ps we have raised average NAV by 25%. Our top picks are Premier and Venture.

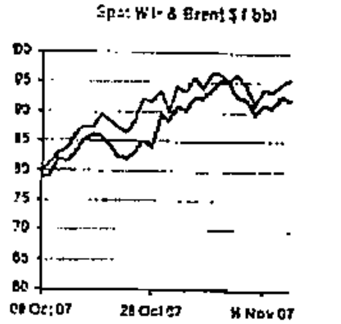
- **US Oil and Gas Sector: Upgrading HES and XOM to Buy**

We are raising the 2007-'08 EPS forecasts for the Majors by 6% on average, as well as raising our price targets by 5%. We are upgrading XOM to Buy with a $96 target and HES to Buy with an $84 target, as well as highlighting APA and OXY as our highest conviction, oil-weighted Buys.

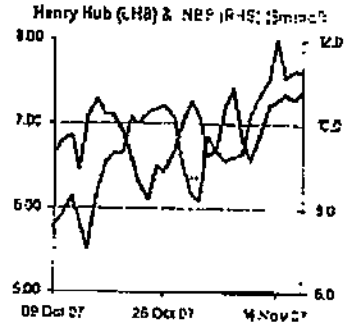
- **Repsol YPF: Upgrading rating to Neutral from Sell**

We are upgrading our rating on Repsol YPF to Neutral (from Sell) while increasing our price target to €27.5 from €25, or by 10%.

Spot WTI & Brent $ / bbl



Henry Hub (LHS) & NBP (RHS) $mmbtu



Stock Prices	Price	Day Chg %
Best Performers		
Rosetta Resources	18.55	3.0%
Cabot Oil & Petroleum	8.85	1.0%
Cheniere Energy	35.31	1.3%
Frontier Oil Corporation	43.40	1.2%
FMC Technologies Inc	55.11	1.1%
Noble Energy	72.50	1.1%

Stock Prices	Price	Day Chg %
Worst Performers		
Bowleven Energy	1011.00	-14.0%
ABK	34.15	-4.4%
ERG	16	-4.2%
Harvest Energy Trust	27	-6.0%
Hardy Oil	522.35	-4.5%
Bharat Petroleum	415.85	-4.4%

Indices	19-Nov	16-Nov	Chg %
S&P 500	1433	1458	-1.7%
UBS World Oils	1547	1555	-0.6%
UBS US Oils	1431	1443	-1.2%
UBS Euro Oils	2542	2588	-2.1%
UBS Asian Oils	3192	2742	-2.2%
UBS Canadian Oils	1664	1500	-0.1%

Oil & Gas Spot and Futures Prices			
IPE		19-Nov	Day Chg
Brent Spot	$/bbl	$92.10	-$0.40
Brent 1 month	$/bbl	$92.22	$0.30
WTI 1 month	$/bbl	$95.75	$2.44
WTI 2 month	$/bbl	$94.82	$1.15
Henry Hub Gas	$/mmbtu	$7.38	$0.50
NBP UK gas	p/therm	$7.53p	-0.35p

Refining Margins (Recent)			Chg wk
US GAP	$/bbl	-4.32	-4.00
Europe	$/bbl	-7.50	-4.36
Asia	$/bbl	-3.74	-2.70
Exchange Rates			
US$ / Euro			1.47
US$ / A$			0.91
US$ / C			1.05

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Oil and Gas Market News

Oil price comment

OIL PRICE - Brent down around 20c from yesterday morning to $92.28 on fresh concerns over the US economy but somewhat offset by forecasts for a cold December. Expectations of another rise in crude stocks also dampened sentiment - the EIA is expected to report a 1.2mbbl increase in inventories when the data is released on Wednesday. Forecaster WSI Corp however predicted that the US Northeast, crucial to US heating oil demand, will face below normal temperatures in December

Natural Gas Storage: Forecasting a 1-10 Bcf Injection for Week Ended November 16th

We expect the EIA to report a 1-10 Bcf injection on Wednesday, bearish relative to last year's 1 Bcf withdrawal and the five-year average of a 10 Bcf withdrawal. We expect inventories to remain relatively flat at 3,541 Bcf, increasing the surplus vs last year to +92 Bcf and the surplus vs the 5-year average to +282 Bcf. Last week, U.S. weather was 7% warmer than last year and 19% warmer than the 5-yr avg.

Dubai Output Slump Puts Heat on Benchmark

Dubai's crude oil production, operated by newly established Dubai Petroleum Establishment (DPE), has dwindled this year to some 60,000 barrels per day, posing a real challenge for the benchmark used to price half of the 12 million b/d of Mideast crude sold into Asia, industry sources familiar with the operation told IOD on Monday. (IOD)

Opec Keeps Status Quo, Adds Environment

Opec will not become a more aggressive or even revolutionary organisation, standing up for the world's poor. Instead, the producer group will build on dialogue with global oil consumers to address oil market and socioeconomic stability, and help fight climate change, it said at the end of its heads of state summit in Riyadh on Nov. 17-18 (IOD)

US Natural Gas Industry Likely to Feel Impact of Historic Drought

The US natural gas industry could well feel the repercussions of an intense drought in the US Southeast that has left the largest populated areas holding less than 60 days' supply of water. The lack of water could initially be bullish for the gas industry, since it will affect day-to-day operations at nuclear and coal-fired power generators. And if drought forces nuclear facilities to shut, gas-fired power generation would replace the load. But it could ultimately prove bearish, one Tennessee gas trader warns, if conditions don't improve and people are forced to leave, cutting residential and industrial gas demand (IOD)

Russia to Offer 10 Areas

The Russian natural resources ministry's subsoil agency, Rosnedra, has identified 10 areas to be offered for geological exploration in January 2008. The biggest is the Kaminsk oil and gas block in the Nenets autonomous region, which borders the Barents Sea to the north and the Komi republic to the south, and is a production center for state Rosneft, Lukoil and US ConocoPhillips, which export from the area by sea. The region lacks large-scale pipeline infrastructure, although pipeline monopoly Transneft has examined plans to build a northern Russian line linking Kharyaga in Timan-Pechora to Indiga on the Barents Sea. Russian Surgutneftegas also recently bought licenses in the Nenets district. Other areas on offer include the Viakhtinsk acreage near the Sakhalin Island city of Alexandrovsk. (IOD)

Company News

BP Begins Production from Trinidad's Mango Field

BP said Monday it had begun natural gas production from the Mango field, offshore Trinidad, bringing more good news after a large Azeri discovery last week. Gas from Mango will supply Atlantic LNG's liquefaction plant for export as LNG to international markets - including the U.S., as well as the domestic market. BP said the field is expected to add 750 million standard cubic feet a day of gas it can deliver, plus some associated condensate. (Reuters)

US Court Ruling Paves for Shell Reserves Settlement to Proceed

A New Jersey court ruled last week that it had no jurisdiction over a European shareholders case concerning a 2004 reserves scandal at Royal Dutch Shell, paving the way for a previous Dutch settlement to proceed. In April, Shell agreed to pay $352.6 million, excluding lawyers fees, to settle claims brought by European shareholders, who accused the company of defrauding them by overstating its reserves. (Reuters)

Shell eyes expansion of China petrochemicals plant

A Chinese petrochemicals joint venture between CNOOC and Royal Dutch Shell plans to expand capacity of its Nanhai complex in Guangdong province, a newspaper reported on Monday. The Huizhou Daily said Shell Chemicals Executive Vice President Ben Van Beurden told a delegation of officials from Huizhou, in Guangdong, about the expansion during a trip to London led by the city's mayor, Li Ruqui (Reuters)

US court dismisses health suit against Chevron

The U.S. District Court in Northern California has dismissed two remaining claims accusing Chevron Corp. of harming the health of Ecuadoreans, the company said on Monday. The suit claimed the company's Texaco Petroleum Ecuadorean oil operations, which ended in 1992, hurt the health of Ecuadoreans. (Reuters)

Chevron's Blind Faith set for 2nd quarter output

Hundreds of workers are putting the finishing touches on Chevron massive $1 billion production platform Blind Faith and, if all goes well, oil and natural gas should flow from the facility in next year's second quarter. But there are still hurdles for Chevron to overcome to keep the project on schedule. That includes possible delays from bad weather and all the surprises that may come with bringing oil and natural gas up from reserves at depths below the seabed of more than 20,000 feet in the Gulf of Mexico (Reuters)

StatoilHydro plans bigger renewable energy profile

StatoilHydro is working to promote carbon capture and storage (CCS), offshore windmills and biofuels as part of a strategy for its renewable energy portfolio Chief Executive Helge Lund said on Monday that the more environmentally minded approach was not "advertising" but a way to boost profits. (Reuters)

Rosneft guides for lower reserve replacement ratio

Rosneft's reserve replacement ratio on the West Siberian fields is expected to be 86% in 2008, at 53% in 2009, and at 43% in 2010, the company's First Deputy Director of Exploration, Mikhail Gudyrin said yesterday, Interfax reports. He added that until 2012 Rosneft intends to annually invest Rb2.7 bn ($100 mn) in West Siberian exploration drilling, Rb2 bn ($80 mn) in seismic work in the region and Rb300 mn ($12 mn) in research.

The guidance is unexpectedly downbeat, as the oil community has come to expect at least 100% reserves replacement ratios (RRR). Rosneft itself reported 225% organic RRR under both SEC and SPE standards as of end-2006.

Transocean gets 3-year Anadarko rig contract

Transocean said on Monday it won a three-year contract worth up to $569.4 million for its ultra-deepwater drillship Discoverer Spirit from Anadarko Petroleum. The contract is expected to begin in 2010 following the completion of the rig's existing contracts in the Gulf of Mexico. (Reuters)

Gazprom Neft appoints Eni executives to board

Gazprom Neft appointed two high-level representatives from Eni to its board of directors on Monday. Eni Vice President of Supply and Portfolio Development Marco Alvera and Chief Operating Officer of Exploration and Production Stefano Cao were appointed to Gazprom Neft's board along with eight others from both Gazprom and Gazprom Neft. (Reuters)

Nippon Oil takes 40% stake in Block 16-2, offshore south Vietnam

Nippon Oil agreed last Friday to take a 40% stake in Block 16-2 offshore southern Vietnam from state-owned oil and gas company Petrovietnam, a Nippon Oil official said Monday. Under a production-sharing agreement, Nippon Oil Exploration will start seismic prospecting work this month with project operator Petrovietnam, which now has a 45% stake, and Vietsovpetro, a 50:50 joint venture between Petrovietnam and Russia which holds the remaining 15%, the official said. (Reuters)

Petrobras cranks up light oil rig after delays

Petrobras said on Monday its new 100,000 barrels per day rig on the light oil Golfinho field started producing crude last Friday after a series of delays. Meanwhile, the start-up of a huge 180,000 bpd rig on the heavy crude Roncador field, the P-52, which had also been scheduled for the end of last week, remains delayed. (Reuters)

Woodside, CPC in LNG Deal

Australia's Woodside Petroleum has signed an agreement with Taiwan's CPC outlining key terms for potential long-term LNG sales of 2-3 million tons/yr from the Woodside-operated Browse project. Woodside said Monday that the deal would run for 15-20 years, starting between 2013 and 2015. The preliminary agreement encompasses key commercial parameters, including price, and could help negotiations on further potential LNG sales from other Woodside Australian developments. (IOD)

Sinopec to Meet Demand

China's largest state refiner, Sinopec, has promised to tackle domestic fuel shortages by boosting product output, increasing imports and curbing exports to meet demand for transportation fuels. In a 10-step action plan, Sinopec General Manager Su Shulin has mapped out what the state giant will do in a bid to fulfill its "responsibility to society." Su also chairs listed affiliate Sinopec Corp. First, the company has pledged to keep quarterly refining runs above 42 million tons (3.42 million b/d) and has increased planned runs in December by 47,300 b/d to 3.43 million b/d. According to Su, the company has raised its January-October crude throughput by 5.4% from last year to 3.31 million b/d and its refined product output by 4.9% to 1.97 million b/d. The company will adjust its product slate to focus more on diesel and less on jet kerosene and naphtha, he said. (IOD)

UBS Publications

Global Oil Price Forecasts: Oil price forecast ratcheted up: Supply constraints versus slower demand growth

We raise our oil price forecasts in three parts. Compared to our previous targets we raise Brent oil's Q4'07 average by 19% to $82.30 per barrel (WTI - 28% to $85.50b) Annual averages in 2007-'09E rise 6%, 13%, and 23% to $74b for Brent in 2008. We are extending our outlook by three years and forecast that in 2012 Brent and WTI will average $81 and $82, respectively. We also inflated our normalized prices significantly to $73 Brent and $75b WTI in 2012 dollars. In the next five years, we expect non-Opec oil production will begin to decline and global spare capacity will shrink to half its current size. Our view is based on bottom-up analysis of new developments and decline rates, combined with a perhaps optimistic view of growth from Iraq and other big wild-cards. Ongoing erosion of demand growth in North America will, we think, be exacerbated by slower global GDP growth. Oil demand growth accelerates, in our view, only in the 2010-'12 time frame, driven by GDP and tempered by high prices and greater efforts at efficiency-gains and conservation. There are the usual risks. But we highlight the emerging upside risk that markets may shift structural-pricing from marginal supply to rationing oil demand.

European Oil & Gas: Raising estimates – lengthening the view

We have raised our '08-09 earnings forecasts for the integrated sector by an average 3.5% but raised '10-12 by an average 30%. We have raised price targets by an average 7%.Our two favoured names are TOTAL and BG. In E&Ps we have raised average NAV by 25%, although we note this sector tends to move on price momentum rather than valuation calls Our top picks are Premier and Venture The focus of investors in oil services is primarily on the duration of the up cycle, with the potential for some further jump in profitability in certain sub-segments. In particular, we believe two effects are likely to be positive for the exploration focused segments of seismic and drilling.

Repsol YPF: Upgrading rating to Neutral from Sell

We are upgrading our rating on Repsol YPF to Neutral (from Sell) while increasing our price target to €27.5 from €25, or by 10%. While the principal reason for the upgrade is the significant oil price increase we are making today (see 'Raising estimates – lengthening the view') we also see some signs of light at the end of the tunnel in Argentina with respect to energy prices, given the 28% rise in retail diesel/gasoline pump prices the company has reportedly achieved. We have increased our group production by an average of 6%, mainly due to higher volumes in Libya and the US Gulf of Mexico. We have also added $250m pa of EBIT due to higher Argentine retail pump prices, although the recent imposition of a rise in gasoline export taxes has limited some of this upside. We have upgraded our Repsol EPS estimates by an average of 20% between 2007and 2012, primarily due to the significant oil price upgrade. The new assumptions lift our NAV estimate by 8% to €29.25 from €27. We have continued to set our price target at a small discount to our NAV to reflect the challenging upstream environment faced by Repsol in its Latin American operations, although the potential sale of a portion of YPF should begin to close this gap. Our new price target of €27.5 is therefore based on a 6% discount to our NAV. We have upgraded our rating to Neutral from Sell.

US Oil and Gas Sector: Raising Oil Price Forecast; Upgrading HES and XOM to Buy

Our revised WTI 2007-'09 estimates are $71.10/Bbl, $74/Bbl, & $73/Bbl, up from $66.35/Bbl, $65/Bbl, & $62/Bbl, respectively. Our 2008-'09 estimates are above consensus' $71/Bbl & $67/Bbl but below futures strips We also raised the normalized price assumed in calculating NAV-based targets to $65/Bbl from $51/Bbl. We are raising the 2007-'08 EPS forecasts for the Majors by 6% on average, as well as raising our price targets by 5%. For the E&P sector, our 2008 CFPS, NAV, and price targets increase by 8%, 11%, and 7%, respectively. With the '08 futures strip nearly $20/Bbl above

consensus, we expect the Street to make meaningful upward revisions to estimates of oil weighted names in particular. Despite the sharp increase in crude prices over the last 2 months, natural gas weighted E&Ps have performed in line with oily peers and the Integrateds have declined 5% since September. We see both better upward estimate revision trends and valuations in oil-weighted names. We are upgrading XOM to Buy with a $96 target and HES to Buy with an $84 target, as well as highlighting APA and OXY as our highest conviction, oil-weighted Buys.

U.S. Refining Sector: Modestly Reducing 2008 Refining Margin Forecasts, "Normalized" Margin Unchanged

While oil prices and refining margins are correlated (correlation of 0.77), we expect the sharp rise in crude prices to adversely impact refining margins in the short term. We have slightly tweaked our 2008E & 2009E benchmark margins, our Gulf Coast 3-2-1 crack spread goes to $12.50/Bbl from $13.00/Bbl in 2008E and goes to $11.50/Bbl from $11.00/Bbl in 2009E. In addition, we have also tweaked our 4Q07E benchmark indicators to make them more in-line with current market conditions. We see 20% upside potential to our targets and recommend Valero with a Buy rating.

Crude oil price forecast upgrade: Impacts to Asian oil and gas sector

In China, we assume a higher crude oil price can be passed through to oil product prices gradually. In India, we still think the government might maintain control on prices of auto and coking fuels. We have raised our price targets for 11 companies in Asia, but believe CNOOC remains the best leveraged to a supply-driven higher crude oil price theme, with strong production growth, prudent cost management, and less exposure to changes in the tax regime. Other stocks with high oil exposure, such as PTTEP, CITIC Resources, and CNPC (HK), should also benefit, in our view. Following our more positive view on regulatory reform on oil product price reform, we upgrade Sinopec (from Sell to Neutral) and PetroChina (from Neutral to Buy).

ONGC - Upgrading price target to Rs1310 on higher long term oil price forecast. Neutral

We have increased our oil price forecasts to US$71/74/74/75/78/bbl in 2007/08/09/10/11, respectively, on constrained supplies and robust global growth of c4% through 2012. We have also increased our normalised Brent price forecast to US$73/bbl in 2012, driven by ongoing cost inflation for GlobalOilCo, Deepwater and Oil sands. We are raising our earnings estimates (FY 08 to Rs104.6 (-2%); FY 09 to Rs107.7 (+3.6%); and FY 10 to Rs100.7 (+5.7%)) on higher oil price realisations as we factor in a Re/$38 rate from 2009 and a higher subsidy contribution. We expect ONGC to continue to share around 30% of under-recoveries for auto and cooking fuels. We estimate ONGC's contribution to under-recoveries will marginally reduce from Rs170bn in FY 07 to Rs165 bn in FY 08, before it climbs back to Rs177 bn in FY 09. We reiterate our Neutral rating, and increase our price target to Rs1310. We have revised our DCF-based price target for ONGC from Rs1150 to Rs1310 (11.8% WACC, 2% terminal growth, Re/$38 from 2008), factoring in our oil price forecast increase. The stock offers a 3.4% dividend yield. We have not factored in any exploration upside.

PetroChina: After the party's over

Following PetroChina's A-share IPO, we believe investors should focus more on fundamentals. We believe the share price will be governed by four themes. 1) a higher crude oil price (UBS has raised its crude oil price forecasts); 2) asset injections; 3) refined product price and natural gas price reform; and 4) new discoveries. We upgrade our rating from Neutral to Buy. We now think the Chinese government will increase refined product and natural gas prices more aggressively than we had previously believed. PetroChina, as the largest natural gas supplier and second largest refiner in China, should benefit from price increases, particularly for natural gas. We believe PetroChina will announce more new discoveries (such as the Longgang gas field and Block H in Chad). We believe CNPC, PetroChina's parent, has about 5 billion barrels of recoverable oil reserves including reserves in Sudan that have not yet been injected into PetroChina. With a more balanced shareholder base following the A-share listing, we believe it will have more flexibility when considering the injection of politically-sensitivity assets. As asset injections are a long term, but important, driver, we have incorporated an option value of Rmb1.8/share from asset injections in our price target. We base our price target on a sum-of-the-parts valuation. We value the E&P business on a DCF model, assuming UBS's normalised oil price forecast of US$73/bbl (Brent) in 2013. Our price target also includes an option value assumption of HK$1.8/share from asset injections.

Sinopec: Improving fundamentals

Following the Chinese government's moves to increase refined product prices and natural gas prices in the past two weeks, we take a more positive view on product pricing and natural gas price reforms. We believe Sinopec's refining margin should be able to break even in 2008 and turn profitable in 2009. We believe Sinopec should benefit significantly from a more proactive increase in refined product prices, and we see this news as a strong catalyst for its share price. An increase in natural gas prices should also help the launch of Sinopec's Puguang gas field in 2009. We expect crude oil prices to decline from current levels to US$70-80/bbl in Q108. We forecast Sinopec's refining segment to earn exceptional profits (similar to what happened in Q107) in H108, which might drive the share price above its fundamental value. We base our price target on a sum-of-the-parts-valuation. Our exploration and production assets assumption incorporates the new UBS oil price forecasts (see Table 3). We value refining, marketing assets and chemical assets in line with the average regional multiples.

CNPC Reiterate Buy rating with new oil price forecasts

With the current share price, CNPC (HK) implies a long term crude oil price of about US$46/bbl from our DCF model. While the company is facing challenges such as slow production growth and rising cost, with 92% reserves in crude oil, it should be a good buying opportunity. The recent drilling update from CNPC (HK)'s partner in Bengara II is disappointing. However, according to CNPC (HK), the drilling programme is not yet completed, and it is still in the process of evaluating the data. While we think the discouraging news from Bengara II hurts the share price, we have not factored the exploration success into our price target. We have changed our valuation methodology from P/E to DCF. Our revised PT is based on new oil prices forecast with a discount rate of 9% and terminal growth rate of 2%.

CNOOC Ltd: Reiterate Buying rating with new crude oil price forecasts

CNOOC is well position to benefit from a costpush high crude oil price environment, as it has strong production growth in from 2008 to 2010, prudent management in cost, and exposed to increase in tax. We see the recent share price correction presents a good buying opportunity. We believe the correction has more to do with the market as a whole rather than company fundamentals specific. In next few months, we might see CNOOC announce details reserves estimates on their discoveries and A-share listing plan. We have changed our valuation methodology from P/E to DCF. Our PT is based on new oil prices forecast with discount rate

of 7.9% and a terminal growth rate of 2%. Currently, the stock is trading in line with PetroChina in terms of P/E 2008E, and we believe CNOOC should command at least a 20% premium.

CITIC Resources Holdings Limited: Reiterate Buy rating with new crude oil price forecasts

We see the recent correction as a further buying opportunity. The correction has been mainly driven by (1) the lack of further acquisitions; (2) a change of management; and (3) a delay in the completion of the acquisition of the Kazakhstan oil assets. However, we believe the company will continue to grow its oil portfolio through M&A, and that the Kazakh deal should be completed in December 2007. With over 100 million bbl crude oil reserves, a higher crude oil price should help the share performance. However, the positive impact from a higher crude oil price environment has been overshadowed by the above factors. We believe that once the Kazakh assets acquisition is completed, investors should pay more attention to the company's crude oil price leverage. Our PT is based on a sum-of-the-parts valuation. We use a DCF with the new global oil price assumption to evaluate the E&P assets.

PTT Public Company Ltd.: LPG risk heightens with oil prices

Mostly to account for upgrades to PTTEP and PTT Chemical, we are raising our pre-ex EPS estimates from Bt31.3 to Bt32.1 (07E), from Bt34.3 to Bt35.9 (08E), from Bt35.2 to Bt36.1 (09E) and from Bt36.0 to Bt41.6 (10E). We are also raising our price target for PTT from Bt350/sh to Bt401/sh. Given limited upside potential to our new price target, we are lowering our rating from Buy to Neutral. Unlike for PTTEP and PTT Chemical, our new global oil price forecasts could create new risks for the parent company. We believe higher oil prices could dent earnings in the company's oil marketing business. We also believe new risks could emerge as PTT and its associates support LPG price caps in Thailand. We expect Thailand's natural gas prices to rise in 2008 and 2009. If LPG price caps are not removed, there is a risk that margins on PTT's gas separation plants could disappoint. We also estimate that LPG price caps could cost PTT's refiners (in refining margin terms) up to US$2.0/bbl in Q407 and Q108. We value PTT using a sum-of-the-parts methodology and its core business using DCF analysis (10% discount rate), which yields our PT. We mark the company's listed affiliates to the UBS price targets, average trading level, or book value where appropriate.

Cairn India - Revising up price target to Rs225 on higher oil price. Sell.

We have increased our oil price forecasts to US$71/74/74/75/78/bbl in 2007/08/09/10/11, respectively, on constrained supplies. We have also increased our normalised Brent price forecast to US$73/bbl in 2012, driven by ongoing cost inflation for GlobalOilCo, Deepwater and Oil sands. We are increasing our earnings for Cairn India (CIL) to Rs1.3 (~14%) in 2007, Rs0.19 (+61%) in 2008, and Rs10.4 (~28%) in 2009, on a higher oil price forecast. The government has agreed to grant rights-of-use for the pipeline. Front-end engineering and design has already been completed and the procurement process for several long lead items has commenced. Our valuation of the Rajasthan block assumes that the evacuation pipeline is in place by the time crude production starts in 2009. With 2P reserves of 632m bbl, CIL's Rajasthan block accounts for 93% of net 2P recoverable reserves and 92% of our price target. We reiterate our Sell rating and increase our price target to Rs225 from Rs169. Our price target is based on our NAV estimate for Cairn India's E&P assets. We use a DCF to value CIL's stake in the Rajasthan, Ravva and Cambay blocks (using a WACC of 10.8%, LT crude oil price $73/bbl, Rs/$ of 38 from CY2008). For the remainder of CIL's assets, we use EV/boe. We factor in exploration upside by valuing a risk-adjusted 360m bbl of prospective resources

Australian Oil Sector: Raising oil price forecasts

Tap benefits most on EPS upside, followed by Oil Search (Neutral), AWE (Buy) and Roc (Buy). On a valuation (NAV) perspective, AWE and Oil Search get the most uplift, followed by Roc Oil (Buy) and Santos (Neutral). Our Oil Search share price target is up 16.7%.

Woodside Petroleum Limited: Browse LNG for CPC. Stybarrow on stream

Woodside has signed a key terms agreement with CPC Corporation Taiwan for the potential sale of 2 to 3 mmtpa of LNG from the proposed Browse LNG development. This follows a similar agreement on 6 Sept for the potential sale of 2 to 3 mmtpa of LNG from Browse with PetroChina. In our view, these preliminary agreements provide a strong case for Browse LNG eventually moving forward. Browse LNG plant development proposals range from a new offshore (lagoonal or floating) or onshore facility in the Kimberlies / Darwin, to expansion of existing Burrup LNG production facilities (NWS and / or Pluto). We assume Browse LNG is initially developed in 2014 as a onshore single train project, that later expands to a 15 mmtpa LNG project, possibly worth up to around A$12 / WPL share. Stybarrow (WPL 50%, BHP 50%) oil production began on 19 Nov 2007. Production is expected to ramp up to 50,000-60,000 bopd (100%) by around six months after start-up. Total Stybarrow capex is around US$760m (gross). We estimate Woodside's 50% share of Stybarrow is worth A$801m, or 118 cps. Our NAV estimate is based on a DCF (10% nominal discount rate) of Woodside's forecast cash flow over the 2P reserve life of producing assets and all committed projects. Our 12-month share price target is A$52.20 and is based on our NAV, project growth, contingent resources and exploration upside.

UBS Oils: Thailand reassessed

PTTEP, PTT Chemical, and PTT shares are down by 21%, 17% and 16% from peak levels, respectively. The share price declines combined with an increase to our global oil price forecasts has prompted a review. PTTEP: Rating upgraded from 'Sell' to BUY and price target upgraded from Bt138/sh to Bt168/sh. We have upgraded average selling prices but also factored in further production cost inflation. PTT Chemical: Rating upgraded from 'Neutral' to BUY and price target upgraded from from Bt134/sh to Bt157/sh. The upgrade to our global oil price forecasts has led to a meaningful upgrade of our long-term olefin price forecasts but only small change to PTT Chemical's natural gas feedstock cost. PTT Public: For the first time in 4 years, we downgrade our rating for PTT from 'Buy' to NEUTRAL but upgrade our price target from Bt350/sh to Bt401/sh mostly for exposure to PTTEP and PTT Chemical. We believe the prospect of higher oil prices is not positive for PTT's core business or for PTT's refiners particularly given exposure to domestic LPG prices. We maintain our Neutral rating on Thai Oil. While we have Buy ratings on Rayong Refinery and Aromatics, we are cautious on these and most refining stocks in Asia. While we believe the supply side picture continues to look bright, we believe the prospect for higher oil prices combined with downside risks to global GDP growth could lead to downside risk to fundamentals at these companies. Also the higher global oil prices move, the more costly LPG subsidies become

SK Energy: Upgrading from Neutral to Buy post share price decline

SK Energy's share price has fallen about 20% from its peak close of Won210,000/sh. This has prompted a review of our

rating. Following an upgrade to UBS global oil price forecasts, we are upgrading our pre-ex EPS estimates from Won13,706 to Won13,957 (07E); from Won15,756 to Won16,002 (08E) and from Won15,731 to Won16,562 (09E). We also raise our price target from Won216,000 to Won240,000 and upgrade our rating from Neutral to Buy. While we are still cautious on most regional refiners, we favour SK Energy for its exposure to upstream oil and gas. This growing exposure is unique in our view when compared to refining peers in the region SK Energy has 510m boe of proven oil and gas reserves and plans to grow its production from about 22,000boed this year to nearly 70,000boed by 2010. Most of SK's reserves are natural gas, but the majority of production growth through 2010 will be supported by liquids (crude oil, condensate and LPG We value SK Energy's core business at Won19.0tr and value the 91% stake in SK Incheon at Won4.?tn using a DCF methodology (8% WACC and 9.4% WACC, respectively).

Japanese Oil Sector Update: Revising our earnings forecasts to reflect upward revision to crude price assumption

We are revising up our WTI crude oil price assumption to $71.10/bbl (from $66.35/bbl) for 2007, 74.00/bbl (65.00/bbl) for 2008, and 73.25/bbl ($62.00/bbl) for 2009. Based on our revised crude oil price assumption, Jul-Sep results, information obtained from results briefings and company visits, and various statistics we have reviewed our earnings forecasts for the oil companies. The earnings climate for mainstay businesses is improving for oil/natural gas development operations due to sharp hikes in crude oil prices, but is worsening for petroleum product operations given the domestic demand slowdown and weaker margins for some products, and is also deteriorating for petrochemicals products, reflecting margin declines for some products. Reflecting changes to our earnings estimates and share price fluctuations since our last investment review, we are changing our price targets and ratings as shown in the table below. We are upgrading our ratings for Nippon Oil, Nippon Mining, and Cosmo Oil from Neutral to Buy as their share prices have declined and their investment indicators now appear undemanding.

Canadian Oil & Gas: Pumping up oil prices

Equally important, our long-term foreign exchange rate assumption rises to US$0.95, up from US$0.815 previously. The impact of our revised assumptions varies considerably throughout our coverage universe, with crude oil-weighted names experiencing the largest increases in estimates, while natural gas weighted companies are negatively impacted by the higher Canadian dollar. On average, target prices have increased by roughly 5%, with a bias toward the large-cap, oil weighted names. Within the large cap E&P/Integrateds our top picks are CNQ, ECA, NXY and SU, and UTS in the small cap oil sands. In the junior E&P space our top domestically focused pick remains CMT and among the junior internationals we prefer AXC. In the energy trust space our top picks are CPG.un, PGX.un and VET.un.

US Oilfield Service & Equipment: Higher Oil Prices Modestly Boost Spending Outlook

Adjusting the Cash Flow Plowback portion of our 5-component UBS Upstream Spending model, we are now forecasting global spending to increase 15% in 2008, up from 13% previously. Internationally, we are now forecasting 20%/18% growth in '07/'08, while North America is expected to increase 4%/11%. Our increased commodity price forecast has limited impact on activity levels, in our opinion, particularly in North America, which is considerably more natural gas sensitive. Outside of North America, our revised forecast may provide further upside for pricing as activity levels are already at high, sustained levels. Coming off of a lackluster 3Q earnings season, combined with the OSX up 39% year to date, we wouldn't be surprised to see some profit taking in the sector through year-end. That being said, fundamentals are pointing toward a strong 2008 for service stocks, particularly the large cap diversified names.

Sasol Ltd: Sharp oil price upgrade out to 2012

2008 impact for Sasol is small (30% of production capped at $76.4/bl/rand appreciation/June year end) at 3% up to R30. 2009 forecast is raised 11% to R34 (using $70/bl oil, R7.54/$) and our 2010 forecast up 44% to R35 (using $76/bl, R7.66/$). We note that these forecasts are still conservative in the short term with spot over $90/bl. Target price is raised as a result by 25% to R425. (DCF based). Our 2009 forecast is still 30% lower than would be implied by the spot oil price. Sasol is among the biggest beneficiaries of high oil prices (its fuel is derived from coal). This removes the problem of finding oil that others face and with it a rising tax take by Governments and exploration cost growth. This upgrade also makes its GTL/CTL ventures more attractive (mitigated partly by the industry cost issues). Following the profit upgrade we are returning Sasol to our Buy list. This is due to our positive view on the oil sector supplemented by Sasol's medium term growth potential, polymers (2008-9), GTL (2009, 2011) and domestic fuel (2009-2014).

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Source: UBS

Statement of Risk

The risks associated with our oil investment theses include lower oil and natural gas prices, margins for global refining, marketing, and chemicals, as well as normal exploration risks associated with the oil and gas business. E&P companies are subject to risks associated with unexpected movements in volatile natural gas and crude oil prices, as well as the impact that political, economic and meteorological events could impart. Moreover, E&P companies are subject to geologic risk (i.e., exploration risk).

Investing in oilfield service stocks is an inherently risky affair and not for the faint of heart. The stocks are among the most volatile in the equity market. Furthermore, industry conditions and activity levels are subject to numerous risks including: weather, commodity price changes, political events in numerous countries around the world, global and regional economic conditions, rapidly changing earnings conditions, merger and acquisition activity by its customers (oil companies), changing technologies, and access to capital both within the industry and for the customers. Therefore, caution should be exercised when analyzing and investing in oilfield service stocks. The offshore construction market is very competitive and there has been significant overcapacity in the past. This can lead some competitors to bid too aggressively for work, which has the potential to diminish profit margins for all participants.

Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	Buy	55%	40%
Neutral	Hold/Neutral	36%	35%
Sell	Sell	9%	22%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	Buy	0%	29%
Sell	Sell	0%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2007.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount

Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned or Company Disclosure table in the relevant research piece

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Addax Petroleum[2a, 2b, 4b, 4c]	AXC.TO	Buy	N/A	C$40.35	19 Nov 2007
Apache Corporation[2a, 4b, 4c, 16b]	APA.N	Buy	N/A	US$99.49	19 Nov 2007
Aromatics (Thailand)[2c, 4b]	ATC.BK	Buy	N/A	Bt65.50	19 Nov 2007
Cairn India Limited	CAIL.BO	Sell	N/A	Rs223.10	19 Nov 2007
China National Offshore Oil Corporation[2c, 4d, 18a, 19b, 23]	0883.HK	Buy	N/A	HK$12.48	19 Nov 2007
China National Petroleum Corporation	0135.HK	Buy (CBE)	N/A	HK$4.96	19 Nov 2007
CITIC Resources Holdings Limited[2a, 4a, 6, 13, 18a]	1205.HK	Buy	N/A	HK$4.55	19 Nov 2007
Compton Petroleum[16b, 20]	CMT.TO	Buy (CBE)	N/A	C$7.98	19 Nov 2007
Cosmo Oil[10, 11]	5007.T	Buy	N/A	¥431	19 Nov 2007
EnCana Corporation[2a, 4b, 4c, 16b]	ECA.N	Buy	N/A	US$88.78	19 Nov 2007
ExxonMobil Corp.[4b, 7, 8, 15, 16b]	XOM.N	Buy	N/A	US$84.11	19 Nov 2007
Hess Corp.[16b]	HES.N	Buy	N/A	US$67.93	19 Nov 2007
Nexen Inc.[2b, 16b, 22]	NXY.TO	Buy	N/A	C$29.31	19 Nov 2007
Nippon Mining Holdings[2c, 4b]	5016.T	Buy	N/A	¥804	19 Nov 2007
Nippon Oil	5001.T	Buy	N/A	¥880	19 Nov 2007
Occidental Petroleum Corp.[4b, 7, 16b]	OXY.N	Buy	N/A	US$68.01	19 Nov 2007
Oil & Natural Gas Corporation	ONGC.BO	Neutral	N/A	Rs1,281.40	19 Nov 2007
PetroChina[2a, 4b, 5, 13, 18a, 19b, 22]	0857.HK	Buy	N/A	HK$14.52	19 Nov 2007
PTT Chemical[8]	PTTC.BK	Buy	N/A	Bt114.00	19 Nov 2007
PTT Exploration & Production	PTTE.BK	Buy	N/A	Bt135.00	19 Nov 2007
PTT Public Company Ltd.	PTT.BK	Neutral	N/A	Bt362.00	19 Nov 2007
Rayong Refinery PCL	RRC.BK	Buy	N/A	Bt23.30	19 Nov 2007
Repsol YPF[2b, 4b, 8a, 16b]	REP.MC	Neutral	N/A	€24.88	19 Nov 2007
Santos Limited[2a, 4b, 13, 18b]	STO.AX	Neutral	N/A	A$13.50	19 Nov 2007
Sasol Ltd[16b]	SOLJ.J	Buy	N/A	RCnt33,100	19 Nov 2007
Sinopec[2a, 4b, 5, 18a, 18b, 22]	0386.HK	Neutral	N/A	HK$10.42	19 Nov 2007
SK Energy[2c, 4d, 5]	096770.KS	Buy	N/A	Won166,500	19 Nov 2007
Thai Oil[2c, 4d]	TOP.BK	Neutral	N/A	Bt85.00	19 Nov 2007
Valero Energy Corporation[2a, 3, 4b, 5, 16b]	VLO.N	Buy	N/A	US$66.01	19 Nov 2007
Woodside Petroleum Limited[2a, 4d, 6, 16b]	WPL.AX	Neutral	N/A	A$46.50	19 Nov 2007

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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6b. This company/entity is, or within the past 12 months has been, a client of UBS Securities LLC, and non-investment banking securities-related services are being, or have been, provided.

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8. The equity analyst covering this company, a member of his or her team, or one of their household members has a long common stock position in this company.

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16b. UBS Securities LLC makes a market in the securities and/or ADRs of this company.

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For a complete set of disclosure statements associated with the companies discussed in this report, including information on valuation and risk, please contact UBS Securities LLC, 1285 Avenue of Americas, New York, NY 10019, USA, Attention: Publishing Administration.

Additional Prices: Australian Worldwide Exploration Ltd, A$2.93 (19 Nov 2007); BG Group, 951p (19 Nov 2007); BP, 573p (19 Nov 2007); Canadian Natural, C$70.50 (19 Nov 2007); Chevron Corp., US$85.03 (19 Nov 2007); Crescent Point Energy Trust, C$22.95 (19 Nov 2007); Gazprom, US$51.00 (19 Nov 2007); Marathon Oil Corporation, US$56.33 (19 Nov 2007); Oil Search Limited, A$4.73 (19 Nov 2007); Petroleo Brasileiro, R$77.30 (19 Nov 2007); Premier Oil, 1,105p (19 Nov 2007); Progress Energy Trust, C$10.36 (19 Nov 2007); ROC Oil Company Limited, A$2.95 (19 Nov 2007); Rosneft, US$8.73 (19 Nov 2007); Royal Dutch Shell, 1,941p (19 Nov 2007); StatoilHydro ASA, NKr166.00 (19 Nov 2007); Suncor Energy Inc., C$99.91 (19 Nov 2007); TOTAL, €54.01 (19 Nov 2007); Transocean Inc., US$116.85 (19 Nov 2007); Venture Production, 759p (19 Nov 2007); Vermilion Energy Trust, C$35.59 (19 Nov 2007); Source: UBS. All prices as of local market close.

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Oil Companies, Major

Sector Comment

Daily Oil News

Key Headlines

21 November 2007

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- **Oil price comment**

Oil price: $96.10 +$3.82/bbl vs. yesterday morning. Last US$1 move was after European markets closed. Brent hits an all-time high and WTI currently at $98.86/bbl, only a touch short of the magic $100/bbl.

- **Nigeria Seeks Energy Industry Control Amid Rising Oil Prices**

With global oil prices surging near $100 a barrel, Africa's leading oil exporter wants to review agreements allowing oil companies to recoup their costs before sharing profits from deep water exploration, and consolidate all its joint venture oil assets into one potentially powerful company with a global reach.

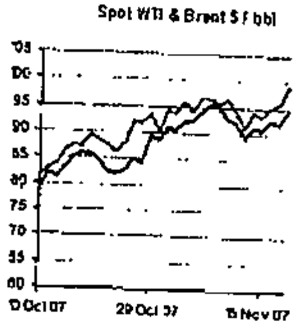
- **Shell Mulls Stakes Sale in Nigeria Blocks**

Some operations at Shell's huge Scotford refining complex near Edmonton, Alberta, resumed on Tuesday, a day after a fire damaged its oil sands upgrader, the company said.

- **Gazprom chairman says has no offer from TNK-BP**

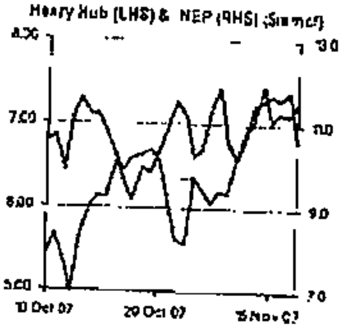
Gazprom has not received any official offer to buy into BP's TNK-BP, Gazprom's chairman Dmitry Medvedev said on Tuesday.

Spot WTI & Brent $ / bbl



Stock Prices	Price	Day Chg %
Best Performers		
Real Resources	10.55	8.0%
Canetic Resources	17.87	5.1%
Hess	71.25	4.8%
Occidental Petroleum	71.38	4.1%
Range Energy	133.00	3.5%
Encana (?)	97.12	3.2%

Henry Hub (LHS) & NBP (RHS) ($/mmbtu)



Stock Prices	Price	Day Chg %
Worst Performers		
Bumi Energy	1935.00	-13.2%
Shell Petroleum	338.10	-8.1%
Harvest Energy Trust	22	-6.3%
River Resources	3	-6.0%
Dana Petroleum	1339.00	-3.4%
Hardman	200.43	-3.1%

Indices	20-Nov	19-Nov	Chg %
S&P 500	1440	1433	2.4%
UBS World Oils	1447	1366	6.4%
UBS US Oils	1401	1403	1.7%
UBS Euro Oils	2642	2086	-1.1%
UBS Asian Oils	2187	2242	-1.7%
UBS Canadian Oils	1664	1500	4.7%

Oil & Gas Spot and Futures Prices		20-Nov	Day Chg
PE			
Brent Spot	$/bbl	$94.69	$2.94
Brent 1 month	$/bbl	$95.40	$3.19
WTI 1 month	$/bbl	$96.12	$3.41
WTI 2 month	$/bbl	$99.1[illegible]	$3.41
Henry Hub Gas	$/mmbtu	$8.41	-$0.53
NBP UK gas	p/therm	53.30p	1.50p

Refining Margins (Trading)			12-mo avg
US Gulf	$/bbl	-6.16	-5.01
Europe	$/bbl	-3.02	4.38
Asia	$/bbl	-5.77	-1.53

Exchange Rates	
US$ / Euro	1.48
US$ / GBP	2.06
US$ / C$	1.00

Oil and Gas Market News

Oil price comment

Oil price: $96.10 +$3.82/bbl vs. yesterday morning. Last US$1 move was after European markets closed. Brent hits an all-time high and WTI currently at $98.86/bbl, only a touch short of the magic $100/bbl the market seems desperate to see. Yesterday's rally was led by heating oil with cold weather forecast for some areas of the US as it heads towards the Thanksgiving holiday and in Asia. Also delays to the return of the BP Whiting refinery. There was also some weakening in the US$ which does have influence in the current market and reports of a bullish upgrade to medium term prices at a Swiss investment bank. Gasoline +6.99c to $2.45/gallon and Heating Oil +8.59c to $2.69/gallon.

Natural Gas Storage: Forecasting a 1-10 Bcf Injection for Week Ended November 16th

We expect the EIA to report a 1-10 Bcf injection on Wednesday, bearish relative to last year's 1 Bcf withdrawal and the five-year average of a 10 Bcf withdrawal. We expect inventories to remain relatively flat at 3,541 Bcf, increasing the surplus vs last year to +92 Bcf and the surplus vs the 5-year average to +282 Bcf. Last week, U.S. weather was 7% warmer than last year and 19% warmer than the 5-yr avg. Since September, weather has been 27% and 26% warmer than last year and normal, respectively. The weather-adjusted S/D balance tightened 1 Bcf from the prior week and was 0.5 Bcfd tighter than the 5-year avg. We have now entered the traditional withdrawal season. However, due to warmer than normal weather, we expect a modest 1-10 Bcf injection to be reported this week, bearish vs seasonal average of a -10 Bcf withdrawal.

US gasoline demand dips again from year-ago levels: MasterCard

The US consumed 9.294 million b/d of gasoline during the week ended November 16, marking the fourth consecutive week of year-over-year declines, MasterCard Advisors said Tuesday. In its weekly estimates of retail gasoline consumption, consulting firm MasterCard Advisors said total consumption for the week was 65.056 million barrels, down 0.5% from the same week a year ago, but up 0.1% from the previous week ending November 9, the report said. (Reuters)

Nigeria Allots $560 Million To Commission Charged With Developing Niger Delta

Nigerian President Umaru Yar'Adua has earmarked $566 million for the Niger Delta Development Commission (NDDC) — charged with implementing the Niger Delta Master Plan — in his federal budget proposal for 2008 (IOD)

OPEC exports unchanged in October vs average September-LMIU

OPEC seaborne oil exports, excluding Angola, rose by just 20,000 barrels per day (bpd) in October versus the average for September, Lloyd's Marine Intelligence Unit (LMIU) data showed on Tuesday. The consultancy said shipments from 11 OPEC members, including Iraq and excluding new member Angola, averaged 22.75 mn bpd in October compared with 22.73 million bpd in September. (Reuters)

Nigeria Seeks Energy Industry Control Amid Rising Oil Prices

With global oil prices surging near $100 a barrel, Africa's leading oil exporter wants to review agreements allowing oil companies to recoup their costs before sharing profits from deep water exploration, and consolidate all its joint venture oil assets into one potentially powerful company with a global reach. "We're looking at models like Petronas in Asia," said Tony Chukwueke, head of Nigeria's Department of Petroleum Resources, citing Malaysia's state-run oil company. It has oil and gas operations in more than 30 countries. (Reuters)

Study Cautions Against US Becoming Too Dependent on Foreign Gas

Opening areas currently off limits to drilling and development would not eliminate the need for the US to import significant volumes of natural gas, a new study says. The study by the Energy Forum at Rice University's Baker Institute for Public Policy found that under a business-as-usual scenario, where US lands are not opened up for drilling, US consumers could depend on LNG imports for as much as 30% of total supply in 2030. However, such dependence on foreign gas has strong implications for security of natural gas supply, as the US becomes more reliant on LNG from the Middle East and Africa, the report cautioned. (IOD)

Saudi Arabia says gas pipeline fire killed 40

The final death toll from a gas pipeline fire in Saudi Arabia on Sunday was 40, Saudi Aramco said on Tuesday. Officials had earlier said 28 people had died and 12 were missing after the fire that was caused by a gas leak near the Hawiyah natural gas liquids plant, which was extinguished. (Reuters)

Activists Urge UN Energy Sanctions as EU Squeezes Myanmar

Human rights activists have called on the UN Security Council to ban all new investment in Myanmar's oil and gas sector and impose targeted financial sanctions on the country's state-owned entities — including Myanmar Oil and Gas Enterprise (MOGE) — the earnings of which substantially benefit the military (IOD)

India Hints at Iran Gas Pipeline Progress

India's junior oil minister, Dinsha Patel, told Parliament Tuesday that Indian officials will meet with their Pakistani counterparts "soon" to resolve some of the issues stalling trilateral agreement on the proposed $7.4 billion Iran-Pakistan-India natural gas pipeline (IOD)

Canada September Output Slips

Canadian oil supplies slipped in September after hitting record levels in August, according to data released by Statistics Canada. However, output was still higher than in any other month since March and easily beat September 2006 (IOD)

Oil Sands Lift Canada Reserves

Canada's crude oil reserves grew 33% in 2006 due to companies booking resources as they developed new oil sands projects and expansions, the industry's main lobby group said on Tuesday. Meanwhile, the country's natural gas reserves were relatively flat for the seventh straight year, the Canadian Association of Petroleum Producers (Capp) said. Established minable oil sands reserves increased by 45% to 8.9 billion bbl last year as Canadian Natural Resources booked resources at its Horizon project in northeastern Alberta, CAPP said. (IOD)

Company News

Shell Mulls Stakes Sale in Nigeria Blocks

Shell is considering selling $900 mn worth of interests in Nigerian offshore blocks as it restructures and reduces its business in the troubled region, people familiar with the matter said Tuesday. The news surfaces after Shell last week unveiled restructuring plans to cut costs and jobs at its Nigerian ventures following months of unrest and pressure by the Nigerian government to renegotiate contracts. (Reuters)

Shell's Scotford refinery output cut after fire

Some operations at Shell's huge Scotford refining complex near Edmonton, Alberta, resumed on Tuesday, a day after a fire damaged its oil sands upgrader, the company said. Shell's 98,000 barrel per day refinery and its 155,000 bpd upgrader ran at reduced rates while its chemical plant was operating normally, company spokesman Randy Provencal said. Construction of an expansion to the upgrader was also continuing. (Reuters)

Huge Fine Sought Against BP

Some victims of the fatal explosion at BP's refinery in Texas City in 2005 asked a judge on Tuesday to impose a $1 billion fine in exchange for the company's agreement to plead guilty to one felony, their lawyer said. (IOD)

PDVSA, TOTAL eye boosting Orinoco output by 400kboe/d

PDVSA and Total could boost production in their Orinoco oil project by 400,000 b/d to 600,000 b/d, PDVSA president and Energy and Oil minister Rafael Ramirez said in Paris, state news agency ABN reported. "We have advanced a lot with Total, once the process of nationalization was concluded, into the possibility of tripling the production that we have jointly," Ramirez was quoted as saying. (Reuters)

Somalia Letter Said Total Oil Deal Illegal

Somalia has deemed a Total oil exploration contract in the country illegal but has proposed negotiations for a new deal, according to a letter obtained by Dow Jones Newswires. "The exploration agreement signed in between Total and the Transitional National Government (a previous interim government) cannot be considered as valid" because "the TNG was already overthrown by the war lords" when it was signed, said the letter, signed by Ali Mohamed Gedi, then prime minister of Somalia who resigned last month. (Reuters)

Exxon Signs Exploration Pact With Libya

Exxon Mobil Corp. signed a deal to explore for oil and natural gas off the Libyan coast, further cementing ties with the oil-rich African nation. Yesterday's agreement comes a year after Exxon Chief Executive Rex Tillerson met face-to-face with Libyan leader Col. Moammar Gadhafi and less than two years after the U.S. ended its official designation of Libya as a sponsor of terrorism. Unlike previous exploration deals that Exxon has won in Libya in the past couple of years, the latest deal was negotiated directly between the two, outside the auction process. (Reuters)

ConocoPhillips cancels Irish refinery sale

ConocoPhillips has cancelled a planned sale of Ireland's Whitegate oil refinery which the U.S.-based oil major put up for sale earlier this year. "We've elected to retain the refinery versus selling it," said spokesman Bill Graham by telephone from ConocoPhillips' headquarters in Houston, Texas. (Reuters)

Eni CEO Says Interest of All To Reach Accord On Kashagan

1) It is in the interest of all parties to reach an accord over the Kashagan field, said Chief Executive Paolo Scaroni of Eni SpA (E), the operator of the project in Kazakhstan. 2) Eni CEO Paolo Scaroni said he did not expect current high oil prices to last for a long time but that markets remained highly sensitive, Italian news agency ANSA said on Tuesday. (Reuters)

Transgaz, Mol To Resume Talks On Arad-Szeged

The representatives of Transgaz and Mol will resume this year the talks over Arad-Szeged gas pipeline, news agency Mediafax reported, citing Transgaz's general director Ioan Rus as saying. "There is a joint interest from both the Romanian and Hungarian part. We are waiting for Mol's response on the matter", Rusu said in a press conference. (Reuters)

Galp Positions Itself to Enter Venezuela with Series of New Upstream Deals

Galp Energia plans to enter Venezuela's Mariscal Sucre offshore natural gas project and that country's oil-rich Orinoco river belt, under an agreement that was expected to be signed Tuesday with PDVSA. (IOD)

Gazprom chairman says has no offer from TNK-BP

Gazprom has not received any official offer to buy into BP's TNK-BP, Gazprom's chairman Dmitry Medvedev said on Tuesday. "We understand that if there is a market offer, it can be accepted or can be rejected. But at the moment, there is no offer.." Medvedev, who is also Russia's first deputy prime minister, told reporters. (Reuters)

Novatek 3Q07 results preview

Novatek is due to report its 3Q07 IFRS results this afternoon. We forecast revenues of $565 mn (up 17% y-o-y, down 3% q-o-q), EBITDAX of $312 mn (up 26% y-o-y and up 11% q-o-q) and net income of $190 mn (up 24% y-o-y and 16% q-o-q).

We expect revenues to decrease q-o-q due to lower realizations, which are themselves the result of lower production—Novatek reported production of 6.01 bcm in 3Q07 (down 18% q-o-q and 16% y-o-y) and 631 mn tons of liquids (flat y-o-y but up 6% q-o-q). However, the 10% q-o-q increase in the benchmark Urals price (and subsequent increases in the price of products Novatek sells) should make up for most of the drop in output. Novatek derives c40% of its revenues from liquid sales..

U.S. approves Encana's purchase of Leor Energy

U.S. antitrust authorities approved EnCana purchase of Leor Energy's stake in a massive natural gas field in Texas, the Federal Trade Commission said on Tuesday. EnCana, which already owns one-half of the prolific Amoruso field, bought the other 50 percent and other properties for $2.55 billion (Reuters)

Petro-Canada eyes Yamal in asset swap with Gazprom

Petro-Canada may swap assets with Gazprom as it wants to get a foothold in Russia's Arctic Yamal peninsula, an executive from the Canadian company said on Tuesday. "We would consider asset swaps to develop upstream opportunities in Yamal," the firm's vice-president for business development, Graham Lyon, told reporters on the sidelines of a Moscow gas conference. (Reuters)

Origin Energy says to abandon NZ test well

Origin Energy Limited has been advised by Operator OMV New Zealand Limited that the Muama 1 exploration well in permit PEP 38485, offshore Taranaki Basin, New Zealand has reached a total depth of 3,674mRT. No significant hydrocarbon shows have been encountered in the primary reservoir and the well will be plugged and abandoned. (Reuters)

Fugro trading statement in-line to positive

Fugro trading statement was in-line to positive, expecting 2007 revenue 1.8bn (consensus 1.8bn) and net income to be "at least €210m" (consensus €213). Fugro commented that "multi client sales in the Gulf of Mexico are lagging behind earlier expectations." This is the issue that has broken the TGS Nopec / Wavefield merger and has also been cited as a problem for CGG-Veritas. Our view is that although wide-azimuth (WAZ) is taking over from convention narrow azimuth, all of the seismic companies (except TGS-Nopec) are sufficiently diversified - and are already moving towards WAZ surveys - for this to be a minor issue.

Transocean, GlobalSantaFe receive merger approval

Transocean said on Tuesday that it had received approval from the Grand Court of the Cayman Islands for its proposed merger with GlobalSantaFe Corp. The parties have tentatively scheduled to complete the transaction on Nov. 27, it said. The merger remains the subject of an investigation by the Office of Fair Trading for the United Kingdom. (Reuters)

Woodside Says Bellcoso Dry, Plenty Of Other Pluto 2 Options

Woodside Petroleum said Wednesday its Belicoso-1 exploration well has come up dry but that it has plenty of other options for gas to underpin a planned second liquefied natural gas processing train at its Pluto project. Woodside said Belicoso didn't encounter hydrocarbons but did intersect reservoir thickness and quality that were better than expected. (Reuters)

Sinopec refineries up fuel output plans

Sinopec refineries have raised their fuel output targets as a top company official pledged to boost production following Beijing's latest call to ensure supplies amid widespread shortages. Yanshan refinery, Sinopec's plant in Beijing, raised its planned fuel output by 100,000 tonnes of gasoline and 50,000 tonnes of diesel in the fourth quarter, a report on a company Web site said. (Reuters)

Reliance gets 2 new oil blocks in Yemen

Yemen signed two oil exploration deals on Tuesday with Reliance Industries the official Yemeni news agency Saba reported. Under the production sharing agreements, Reliance Exploration & Production DMCC and its Yemeni partner Hood are to invest $66 million to develop blocks 34 and 37 in eastern Yemen, the agency said (Reuters)

HPCL plans $4.5 bn capex over 5 yrs

Hindustan Petroleum Corp Ltd plans to spend about $4.5 billion on exploration, gas marketing and petrochemicals by 2012, a senior official said on Tuesday. HPCL, which runs two refineries with a total capacity of 260,000 barrels per day (bpd), hopes to invest about $1 billion for exploration and production over the next five years, Finance Director C Ramulu told Reuters in an interview. (Reuters)

UBS Publication

Holly Corporation: HOC Announces In-Principle Sale of Certain Pipeline and Tankage Assets

HOC today announced in-principle sale of certain pipeline (including Navajo refinery crude delivery system & Western Permian basin crude gathering line) and tankage assets (including on-site crude tankage located at Navajo & Woods Cross refineries of approx. 600 MBbld capacity). Of the total $180 mm sale price, approx. $171 mm will be cash proceeds and the remaining $9 mm worth of HEP common units. HOC expects this transaction to close by 4Q07 or 1Q08. These assets should enable HEP to grow and thereby increase its distributions to the general partner (i.e HOC) and we expect the distributions to reach high splits (50/50) by 4Q08/1Q09. We expect HOC's growth strategy to be closely linked to that of HEP, given the overlap in refining/transportation. Holly currently has a strong balance sheet position, with no long-term debt. Holly has strong operating metrics, best in class operating income per Bbl and ROCE. Our $69 price target is based on our estimate of HOC trading at 22x normalized 2008E EBITDA, above its historic average.

Petroleo Brasileiro: Valuation Support

UBS has raised its forecasts for oil prices in the 2007-2012 period and raised our normalized price assumption to $63/bbl from $50/bbl. Drivers here are a concern on non-Opec's ability to raise production, rising costs and taxes, and PSC effects on oil companies. We are raising our target for Petrobras by 37% to R$126.8, upping our EPS forecasts by 23% in 2008-2009 and 81% in 2010-2012. While our oil forecasts are now above consensus, particularly on the medium term, we believe that where it matters most (in our normalized forecasts) we are really catching up to investor's consensus. Our target upgrade might not be much of a surprise to investors. Still, we still see more upside on exploration than the average investor expects, and sooner rather than later. We reiterate our Buy rating for Petrobras. In our view, the company is an excellent vehicle to play higher for longer oil prices due to its large undeveloped reserve base, its production growth potential and its potential for even more exploratory upside. In a sense, we believe our oil call highlights some of Petrobras' positives. Low exposure to PSC's and a stable tax regime in Brazil make it more appealing when looking at the outlook we see for the oil sector. Our target is based on a DCF with a 8.3% WACC and 3% perpetuity growth. At perpetuity we add to our DCF the value of Petrobras' excess reserves at US$5/bbl

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Source: UBS

Additional Risk Statements:- Holly Corp: U S. Independent Refining companies are subject to risks primarily associated with volatile movements in crude oil prices and refining margins. Additionally, economic growth forecasts, particularly in the US have an impact on the demand for crude oil as well as refined products. These companies are also exposed to political risk, in the form of increased regulation and scrutiny on permissible fuel specifications and meteorological events like hurricanes Moreover, refining margins being extremely volatile makes the forecasting of future earnings results extremely challenging. Petrobras: Petrobras is exposed to a number of risks in its activities that include: (i) exploration risk in its oil exploration portfolio; (ii) execution risk on new production and downstream assets; (iii) commodity price risks on its day to day marketing and trading businesses; and (iv) administratitve risks due to the potential change in management that the company faces every four years, in line with Brazil's presidential elections. The most relevant risks to our forecasts focus on Petrobras' ability to increase its oil and gas production, its ability to keep

domestic fuel prices high enough to maintain profitability of its refining assets and the Brazilian exchange rate.

Statement of Risk

The risks associated with our oil investment theses include lower oil and natural gas prices, margins for global refining, marketing, and chemicals, as well as normal exploration risks associated with the oil and gas business. E&P companies are subject to risks associated with unexpected movements in volatile natural gas and crude oil prices, as well as the impact that political, economic and meteorological events could impart. Moreover, E&P companies are subject to geologic risk (i.e., exploration risk).

Investing in oilfield service stocks is an inherently risky affair and not for the faint of heart. The stocks are among the most volatile in the equity market. Furthermore, industry conditions and activity levels are subject to numerous risks including: weather, commodity price changes, political events in numerous countries around the world, global and regional economic conditions, rapidly changing earnings conditions, merger and acquisition activity by its customers (oil companies), changing technologies, and access to capital both within the industry and for the customers. Therefore, caution should be exercised when analyzing and investing in oilfield service stocks. The offshore construction market is very competitive and there has been significant overcapacity in the past. This can lead some competitors to bid too aggressively for work, which has the potential to diminish profit margins for all participants.

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Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	Buy	55%	40%
Neutral	Hold/Neutral	36%	35%
Sell	Sell	9%	22%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	Buy	0%	29%
Sell	Sell	0%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2007.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event
Sell	Sell Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned or Company Disclosure table in the relevant research piece.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Holly Corporation[16]	HOC.N	Neutral	N/A	US$49.15	20 Nov 2007
Petroleo Brasileiro[2, 4, 5, 16, 20, 22]	PETR4.SA	Buy (CBE)	N/A	R$77.30	20 Nov 2007

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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20. Because UBS believes this security presents significantly higher-than-normal risk, its rating is deemed Buy if the FSR exceeds the MRA by 10% (compared with 6% under the normal rating system).
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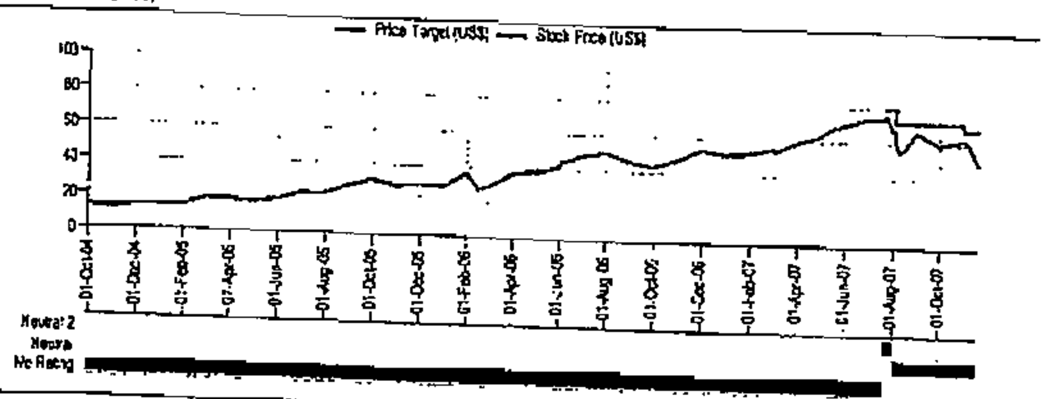
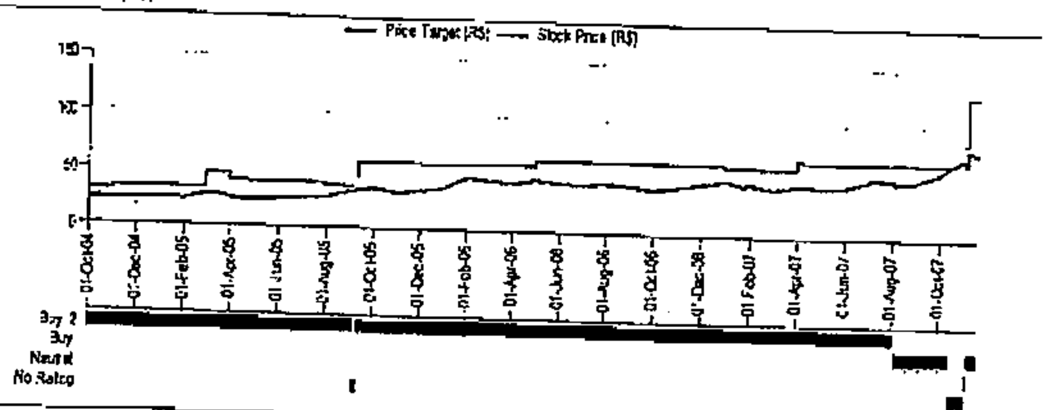
Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Holly Corporation (US$)



Source: UBS; as of 20 Nov 2007

Petroleo Brasileiro (R$)



Source: UBS; as of 20 Nov 2007

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

Additional Prices: BP, 560p (20 Nov 2007); ConocoPhillips Inc., US$79.28 (20 Nov 2007); EnCana Corporation, US$67.84 (20 Nov 2007); EnCana Corporation INTG, (): Eni, €24.07 (20 Nov 2007); ExxonMobil Corp., US$87.82 (20 Nov 2007); Fugro, €55.72 (20 Nov 2007); Galp Energia, €14.05 (20 Nov 2007); Gazprom, US$51.80 (20 Nov 2007); GlobalSantaFe Inc., US$82.45 (20 Nov 2007); Hindustan Petroleum, Rs300.45 (20 Nov 2007); Mol, HUF25,545.00 (20 Nov 2007); Novatek, US$6.00 (20 Nov 2007); OMV, €49.28 (20 Nov 2007); Origin Energy, A$8.75 (20 Nov 2007); Petrobras Energia Part., AP3.39 (20 Nov 2007); Petro-Canada, C$51.83 (20 Nov 2007); Reliance Industries, Rs2,786.85 (20 Nov 2007); Royal Dutch Shell, 1,986p (20 Nov 2007); Sinopec, HK$10.90 (20 Nov 2007), Test, CHF78.30 (20 Nov 2007); TNK-BP Holding, US$2.21 (20 Nov 2007); TOTAL, €54.91 (20 Nov 2007); Transocean Inc. US$122.02 (20 Nov 2007); Woodside Petroleum Limited, A$47.80 (20 Nov 2007); Source: UBS. All prices as of local market close.

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EXHIBIT G

Energy Intelligence

Vol. 6, No. 235, Thursday, December 6, 2007

INTERNATIONAL OIL DAILY

Iraq Courts Four Majors for Technical Deals

Four majors met with Iraqi oil ministry officials in Amman last week to initiate talks on the first commercial technical support contracts to be awarded since the US-led invasion over four years ago, Iraqi and industry sources told *International Oil Daily* Wednesday. The ministry is aiming to raise output by 500,000 barrels per day over the next two years.

The talks with BP, Chevron, Exxon Mobil and Royal Dutch Shell were initiated by Oil Minister Hussein al-Shahristani in a desperate bid to get technical help boosting output at producing fields and stemming declines, especially in the mature Kirkuk oil field in the north and Rumaila in the south (IOD Sep.19,p1). While in Abu Dhabi for the Opec meeting Wednesday, al-Shahristani requested a follow-up meeting with executives from BP and Shell.

The bilateral talks in Jordan, held between Nov. 26 and Dec. 3, were aimed at "exchanging views on how the international companies can help to solve operational problems and increase production if possible within the terms of the technical support contract," an Iraqi source told *International Oil Daily*.

The technical support contracts are viewed as an extension of the memoranda of understanding (MOU) that many companies have signed with the oil ministry since 2004 offering free technical assistance on designated oil fields. The contracts will be limited to two years. International oil companies (IOC) will provide remote support similar to that offered under the MOUs, but will be paid.

"What North Oil Co. (NOC) and South Oil Co. (SOC) need is technical support in drawing up development plans, defining their needs, help with procurement — including with the choice of specifications of equipment and material — design and engineering, and market follow-up," one Iraqi source said.

The oil ministry will fund all purchase orders, which will be prepared jointly, but the orders will be issued by NOC and SOC, not by the IOCs. The two Iraqi firms, and not the ministry, will also sign the technical support contracts. The companies "as contractors" will be reimbursed for costs and remunerated on a fee basis that will be negotiated under the contracts in coming weeks.

"This is in line with the draft petroleum law. The ministry will not have an executive role," the source added.

News in Review

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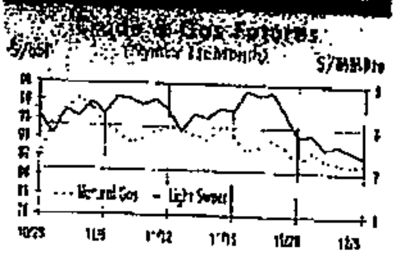
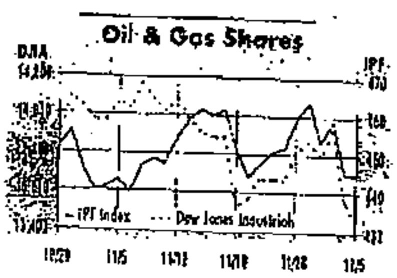
Under the plan, the four majors are expected to submit detailed proposals, including technical and financial offers, before the end of December, which will then be unified under one model contract. BP will submit a proposal for Rumaila, Chevron for West Qurna stage 1, Exxon for Zubair and Shell for Missan and Kirkuk. The target is to increase output by 100,000 b/d at each of the five fields in the first year after signing the contract and sustain it over the second year.

West Qurna stage 1 is in the southern part of the West Qurna field. Russia's Lukoil had in the past negotiated the stage 2 development, which lies in the northern part of the

(See Iraq, page 2)

Latest Market Trends





Opec Keeps Output Steady, Predicting Surplus

Opec oil ministers decided to hold oil output steady at their meeting in Abu Dhabi Wednesday, despite pressure to raise production to cool prices. Traders had widely expected an increase of at least 500,000 barrels per day, but an Opec official said after the meeting that the option was never on the table.

Oil prices jumped $2 per barrel immediately after the decision was announced, but ended the day down. The group said it will meet again on Feb. 1, ahead of a meeting already planned for Mar. 5, to allow it to keep an eye on "market uncertainties."

Ministers said they saw a balanced market that is "well supplied" and has "comfortable" stock levels, but expressed concern about price volatility, which they said is "in major part due to the perception of market tightness by market players" and is exacerbated by speculation and geopolitics. According to one analyst, the decision makes full sense from a fundamental perspective.

Looking ahead to 2008, Opec sees market balances loosening and expects a 1.2 million b/d surplus in the second quarter, when oil demand typically drops.

"There is a disconnect between market fundamentals and prices," Opec Secretary-General Abdullah al-Badri said after the meeting, adding that Opec is building up spare capacity to "calm the market." The producer group currently has spare capacity of 3.5 million-4 million b/d, al-Badri said, and Opec members have 120 projects under way at a cost of $150 billion.

Crude oil prices had in November surged near $100/bbl before falling about $10/bbl last week on expectations Opec would raise output. Ahead of the meeting, some delegates had suggested hiking pro-

(See Opec, page 2)

Oman Set to Start Reversing Output Decline in 2008, Minister Says

Oman will boost output more than 50,000 barrels per day to around 800,000 b/d in 2008, on the back of higher production from the Mukhaizna oil field — clawing back some of the decline that has seen output drop from a peak of 840,000 b/d in 2000 — Oman' Oil Minister Mohammed al-Rumhi tells *International Oil Daily*.

"By December next year, Mukhaizna will go to 50,000 b/d, up from 20,000 b/d," the minister said. Output will subsequently rise to 80,000 b/d, Omani ministry sources said. Al-Rumhi expects US Occidental, which operates Mukhaizna along with producing Block 9 and Block 27, to raise production in Oman to around 150,000 b/d, up from around 100,000 b/d now.

Speaking on the sidelines of the Opec meeting in Abu Dhabi, which non-Opec Oman attended as an observer, al-Rumhi said condensate output is also set to rise.

Ministry officials said the Kauther gas plant, which started up ahead of schedule in October, will double condensate production to around 80,000 b/d. The plant is now turning out 4 MMcm/d of natural gas and 25,000 b/d of condensate (IOD Nov.20,p7). Condensate production is projected to rise to 100,000 b/d as further gas projects come on line. Oman blends its crude with condensate for export.

The new output will partly offset continued natural declines at Petroleum Development Oman (PDO) fields, where al-Rumhi said production will slump to 550,000 b/d in 2008 from around 590,000 b/d this year. In May, he said he expected output from Royal Dutch Shell-led PDO to decline to around 570,000 b/d in 2008 (IOD May8,p1). The minister said he expects PDO to hold output steady at 550,000 b/d.

Last week, Oman's consultative council approved a 2008 budget projecting average production of 790,000 b/d, up from the 740,000 b/d forecast for 2007 (IOD Nov.29,p7). Omani officials called the 790,000 b/d estimate conservative, and said the country hopes to hike output to a peak of 1 million b/d by 2010.

Plans to import natural gas are, meanwhile, suffering delays. The first supplies of Qatari gas from the Dolphin project are now due in the third quarter of 2008, rather than early 2008, al-Rumhi said.

Equally distant is progress on a May memorandum of understanding to import gas from Iran. "There is nothing to report," al-Rumhi said. A planned September meeting to discuss trickier parts of the agreement, like pricing and financing, did not take place, Omani officials said.

Al-Rumhi said Oman could export the Iranian gas through its underused LNG facilities, which are operating some 2 million tons per year below capacity. Other options include using the gas for power generation.

Alex Schindelar, Abu Dhabi

Iraq . . .

(Continued from 1)

field. The Iraqi oil minister said this will be open for bidding once the ministry is able to award long-term contracts (IOD Dec.5,p7).

The Rumaila north and south fields are currently producing about 1.2 million b/d, West Qurna roughly 400,000 b/d, Zubair about 200,000 b/d, and Missan just over 100,000 b/d. Output from Kirkuk, in the north, varies, but averages 250,000 b/d when no crude is pumped to the Turkish Mediterranean export terminal of Ceyhan. The Majnoon and Subba-Luhais fields are together producing some 100,000 b/d, but they are excluded from the current short-term contracts.

"If the contracts are signed in early 2008, Iraq's output should be raised by 500,000 b/d by end-2008 and sustained all through 2009," the Iraqi source said.

Iraqi sources said the four majors are keen to link the technical support contracts to commitments they will be awarded long-term contracts for the same fields. But the oil ministry is adamant that long-term contracts cannot be discussed until the hydrocarbons law has been approved, and that the deals will then be awarded through competitive bidding.

Both BP and Shell have worked extensively on Rumaila and Kirkuk and provided free assistance to the oil ministry over the past four years. They were also involved in detailed reservoir studies for the two fields, which they freely provided to the ministry with the aim of snapping up long-term development deals.

"It was made clear to them [IOCs] that we cannot talk about anything beyond 2009. The mandate is up to 2009 only," the source said.

Despite their eagerness to sign deals with Iraq, companies are skeptical about the feasibility of achieving the production targets defined by the oil ministry.

"To add 100,000 b/d within one year is a very tall order. It's very ambitious," one company executive told *International Oil Daily* Wednesday. And "to aim for an additional 500,000 b/d at different locations at the same time is also a stretch on Iraqi resources."

As the majors will be providing remote assistance under the technical support contracts and will not be deploying staff on the ground, on-site construction and installation will be carried out by Iraq's State Co. for Oil Projects (Scop) and by NOC and SOC staff. The dozens of Iraqi engineers who have been trained by IOCs under the MOUs will come in handy, but industry and Iraqi sources say international service firms' input will be needed on the ground.

Ruba Husari, Dubai

Opec . . .

(Continued from 1)

duction as a way of mollifying market players and stopping prices from surging back to \$100/bbl, even though they said fundamentals did not warrant an increase. All delegates agreed that Opec is offering more oil than the market is willing to buy (IOD Dec.5,p1). And when it came to the meeting, "There was no discussion of an increase whatsoever, because everybody looked at the numbers, from ourselves and others, and the numbers indicated a balanced market," Opec's director of research, Hasan Qabazard, said.

Opec President Mohammed al-Hamli argued that high oil prices are the result of market fears about current and future tightness, combined with geopolitical tensions and refining shortages.

According to one US-based trader, the latest US national intelligence assessment saying Iran stopped its nuclear program in 2003 — contradicting the US administration's previous view — should shift oil traders' focus back from geopolitics to economics and oil market fundamentals.

Raad al-Kadiri of PFC Energy in Washington said the meeting showed there is a disconnect in communication between Opec and the market. The market wants proof of oil, while Opec says it has studied market fundamentals and is willing to sell as much oil as the market needs. "They talk past each other," al-Kadiri said, "and that's getting more acute with prices getting higher."

The conference decided to give Angola a production allocation of 1.9 million b/d and Ecuador 520,000 b/d. Angola became an Opec member on Jan. 1, 2007, while Ecuador attended its first Opec ministerial meeting this week after a break of 15 years.

Including the two new allocations, Opec's official output is 29.763 million b/d for the 12 members with a quota. Iraq, the 13th member, is now the only one without an allocation.

John van Schaik and Alex Schindelar, Abu Dhabi

ONGC Ties Up With Indian Industrial Group for Possible Work in Iran

Indian flagship explorer Oil and Natural Gas Corp. (ONGC) has approved a preliminary deal to collaborate with the hugely wealthy Hinduja group on projects that could include Iranian oil and gas developments.

The board of ONGC Videsh (OVL), the state giant's overseas arm, Wednesday gave the green light to signing a memorandum of understanding (MOU) with India's Hinduja — whose interests range from cars to banking — to pursue oil and gas projects on a case-by-case basis.

The Hindujas want to form a joint venture similar to one ONGC set up with steel tycoon Lakshmi Mittal. But a top ONGC official tells *International Oil Daily*, "We will go with the Hindujas if they bring specific projects. We will then form project-specific joint-venture companies or special purpose vehicles. There will be no overarching joint venture."

The Hindujas have since last year been courting ONGC for a joint venture to acquire overseas assets, particularly in the Middle East. The state company has resisted, saying it would create competition for OVL — which has a sizable presence in Qatar, Iraq, Syria and Libya, and is pursuing assets in Kuwait, Oman, Saudi Arabia and the UAE — as well as for its Mittal venture.

The Hindujas claim to have signed an MOU with Naftiran Intertrade Co., an affiliate of state National Iranian Oil Co., for the Azadegan oil field and Phase 12 of the giant South Pars gas development. They say their understanding is that they could get a stake in both developments if they bring on operator like ONGC on board.

Tehran in 2003 offered ONGC a 40% stake in the 26 billion barrel Azadegan field. Two years later, the Indian firm inked an agreement with Iran's Petropars, which is overseeing the South Pars work, for development of Phase 12 as the basis for LNG supplies to India. Talk then was that ONGC would also get a 10% stake in the big onshore Yadavaran oil field and 100% of the Jufeir field.

While ONGC is now developing the Farsi oil field, other schemes have ground to a halt. Iran recently signed MOUs with Austrian OMV and Turkey's TPAO to produce gas and LNG from South Pars Phase 12, and has started exploring possible alliances with private firms like Hinduja (IOD Oct.9,p3).

Indian private-sector conglomerate Essar has also been in talks about building an $8 billion, 300,000 barrel per day refinery at Bandar Abbas, with work scheduled to start early next year. It was also talking about developing Azadegan, after a deal with Japan's Inpex fell apart last year, and buying Iranian LNG.

But Essar, which expanded into the US earlier this year with the purchase of Minnesota Steel, has been forced to suspend — possibly cancel — the Iranian plans to keep the steel acquisition on track after becoming a target of the US-led campaign to discourage foreign investment in Iran's energy sector.

Problems emerged in October, when Minnesota Governor Tim Pawlenty was contacted by a US Commerce Department official concerning reports of Essar's Iranian refinery plan. Pawlenty immediately announced he would withhold support for the steel deal until the Iran situation was resolved. Essar subsequently pledged to do nothing "which would in any way be contrary to any applicable US or international laws." US law allows Washington to impose sanctions on non-US firms investing more than $20 million per year in Iran's energy sector. Pawlenty has since agreed to renew his support for the steel acquisition and associated aid.

Ammar Zaidi, New Delhi

BP Sets Sights on Canada with Husky Oil Sands Refining Agreement

BP and Husky Energy have struck an oil sands-refining alliance that ties a big Husky oil sands project to a BP refinery in Ohio.

The deal announced Wednesday marks a change of strategy for BP, which had previously avoided Canada's huge — and costly — oil sands ventures while other majors and smaller players have poured billions of dollars into development of the region's reserves.

Under former BP Chief Executive John Browne, the London-based major saw the oil sands region as too costly a place to invest and opted instead to focus on retooling US refineries to expand bitumen processing capacity.

But with new chief Tony Hayward in charge, BP on Wednesday grabbed a 50% stake in an oil sands venture that is expected to produce 60,000 barrels per day in 2012, rising to 200,000 b/d by as early as 2015.

BP's deal with Calgary-based Husky resembles the 2006 deal between ConocoPhillips and EnCana. In that transaction, Conoco swapped stakes in two US refineries for interests in two EnCana oil sands projects.

In the BP-Husky deal, the companies are creating an oil sands partnership to be operated by Husky and a US refining partnership to be run by BP. Husky is contributing its Sunrise Oil Sands venture while BP is contributing its Toledo, Ohio, refinery to the partnerships. The deal is expected to close in the first quarter of 2008.

"BP's move into oil sands is an opportunity to build a strategic, material position and the huge potential of Sunrise is the ideal entry point for BP into Canadian oil sands," BP's Hayward said.

Husky's Sunrise asset is located about 35 miles northeast of Fort McMurray, Alberta, adjacent to Imperial Oil's Kearl Lake project and Suncor's Firebag development. Husky estimates that the Sunrise oil sands venture holds possible and probable reserves of 3.2 billion barrels.

The Sunrise acreage will be developed in three phases using steam-assisted gravity drainage technology, with phase one slated to produce 60,000 b/d in 2012. The first phase of investment is expected to total US$3 billion. The other two phases will lift production to 200,000 b/d by 2015-20.

On the downstream side, the BP operated Toledo refinery will have a much different look by 2015. BP and Husky will spend a combined US$2.5 billion by 2015 to reconfigure the plant to handle more Canadian volumes.

Toledo currently has a crude distillation capacity of 155,000 b/d, of which 60,000 b/d currently processes heavy oil. The companies will expand Toledo's bitumen processing capacity to 120,000 b/d, with total refinery capacity rising to 170,000 b/d by 2015.

With a combined price tag of $5.5 billion, phase one of Sunrise's development and work on the Toledo refinery will cost $80,000-$90,000 per b/d of capacity — a good bargain, according to one analyst.

"This is substantially lower cost than a stand-alone upgrader and will deliver a higher cash flow stream than an upgrader," said UBS analyst Andrew Potter.

Husky's deal with BP has caused the Canadian company to alter its downstream plans. The recently acquired Lima, Ohio, refinery was originally going to be reconfigured to process heavy crude and bitumen, but following the Toledo refinery deal with BP, Husky will now just move ahead with plans to process heavy crude at Lima.

Husky has also deferred the planned expansion of its Lloydminster upgrader, although it said an expansion remains an option in the future.

In addition to reconfiguring the Toledo refinery to handle more Canadian volumes, BP is separately spending nearly $4 billion to increase heavy crude capacity at its Whiting, Indiana, refinery.

Jeff Gosmano, Houston

Hungary's Mol Unveils Proposal to Establish Regional Gas Grid Firm

Hungary's Mol Wednesday unveiled an initiative to set up a joint venture operating up to 27,000 kilometers of gas pipelines across Central and southeast Europe. The idea has received a cautious welcome from the European Commission. But the proposal is at a very early stage and elicited a suspicious response from OMV, the Austrian company engaged in a takeover bid for Mol (IOD Dec.5,p9).

Transmission companies in Slovenia, Croatia, Bosnia-Herzegovina, Serbia, Romania, Bulgaria and Austria had all been invited to talks about the proposed new business entity, Mol said, adding that the initiative is open to other market players in the region, too. Mol argued that unbundling gas transmission assets and combining them into a new company under joint ownership and management could create significantly higher value for shareholders than operating separate systems.

Mol also argued that such a combined entity would realize synergies from integrated asset operation, stating "As the leading blue-chip gas infrastructure company in the region, it would have better access to the international capital markets for the future financing of major European-scale projects, such as the planned Nabucco pipeline." The Nabucco line is planned to run from Turkey through Central Europe to Austria.

An OMV spokesman told *International Oil Daily* that plans to create a jointly run regional gas distributor are clearly at a very embryonic stage. "OMV was asked to participate only [Tuesday], and we will evaluate that. We recognize this as an acknowledgment by Mol that there is a need for regional consolidation in the Central and Eastern European energy sector. We continue to believe that a combination of OMV and Mol is the most effective way to address the issue of security of supply."

Asked how the plan might affect the company's ongoing standoff with OMV, a Mol spokeswoman said: "This initiative is completely separate from OMV's proposed bid for Mol. Mol has long had a policy of looking at ways of increasing shareholder value and constantly reviews its strategy to that end. Mol continues the implementation of its independent value-creation strategy."

There are currently five equal shareholders in Nabucco — OMV, Turkey's Botas, Romania's Transgaz, Bulgaria's Bulgargaz and Mol. All the partners except Botas are understood to have agreed in principle that Germany's RWE should join, too; the only reason Botas has yet to agree is due to vacancies on its board.

Mark Smedley, London

Mend Wing Set to Sign Cease-fire in Nigeria as Other Factions Threaten More Oil Attacks

A faction of Nigeria's Movement for the Emancipation of the Niger Delta (Mend) is expected to formalize a conditional year-long cease-fire with the government today, following talks in Yenagoa, the capital of Bayelsa state.

The Bayelsa division of Mend agreed to a truce earlier this week with members of the Niger Delta Peace and Conflict Resolution Committee (NDPCRC), led by Senator David Brigidi, *International Oil Daily* has learned.

The deal was brokered by the Bayelsa state peace committee, headed by James Jephthah, following lengthy discussions with all parties. NDPCRC Secretary Kingsley Kuku has also been facilitating peace talks — the first stage toward negotiating fundamental change — with other militant groups.

The arrest in September of Mend hardliner and overall leader Henry Okah — also known as Jomo Gbomo — gave President Umaru Yar'Adua an opportunity to bring all of Mend's factions into the peace talks (IOD Dec.5,p3). But a major core of Okah's loyal supporters — numbering as many as 3,000 fighters — in Rivers state have not been persuaded to come to the table and are threatening further attacks on Nigeria's oil industry.

Mend has given the federal government a year to start implementing its development plans for the Niger Delta. But repeated postponements of the Niger Delta summit — aimed at advancing the plans for the oil-rich area — have eroded confidence. Initially called for June, the talks are now planned for January 2008.

More worryingly, Nigerian sources said the new cease-fire appears to be based largely on a monetary agreement with Mend — increasing incentives for criminal activity and the main rationale for militia activity.

Separately Wednesday, the Brussels-based International Crisis Group (ICG) urged Nigeria's federal government to "act decisively" to stop the region from slipping back into chaos.

In a new report: Nigeria: Ending Unrest in the *Niger Delta*, the ICG said Yar'Adua must "go beyond drawn-out consultations with militants and ethnic leaders and quickly translate his promises into credible policies addressing violence and the region's legitimate demands."

The group said faith in the government is being shaken partly by ambiguity over how much of the funding earmarked in the 2008 budget for delta development is for economic development, not merely the security services.

ICG senior analyst Nnamdi Obasi warned: "Hostage-taking has turned into a lucrative, criminally driven enterprise. This practice is threatening to spread beyond the core Niger Delta to other parts of the country."

Deb Kelly, London

China, India Need Special Treatment, IEA Says

When it comes to climate change, developed nations must make allowances for emerging Asian giants China and India, giving them the leeway to curb fossil fuel emissions without damaging economic growth, according to Fatih Birol, chief economist of the Paris-based International Energy Agency (IEA).

"These countries are not in the same basket as the developed countries. We need to give them incentives to reduce carbon dioxide emissions while also maintaining economic growth," Birol told a London audience Wednesday.

His comments come as delegates from 190 nations meet in Bali, Indonesia, to begin the process of agreeing a successor to the Kyoto climate change treaty (IOD Dec 3,p2). The current treaty, which expires in 2012, commits most major industrialized countries to cutting emissions but excludes developing giants like China, India and Brazil. The US — now the only major industrial country not to have ratified Kyoto — refused to sign on partly because the pact excluded the likes of China and India.

The summit, which started Monday, is already generating heated debate. Developing countries argue that they cannot justify emissions caps at this stage, as this could harm growth, and have called on richer nations to make deeper cuts. Canada and Japan, meanwhile, put out statements in Bali Wednesday calling for all the world's big greenhouse gas emitters to make cuts, not just rich countries.

Birol stressed that the industrialized world needs to provide leadership to India and China while cutting back its own emissions. But ultimately, "without having the US, China and India involved fully and wholeheartedly, it would be impossible to get a solution on climate change," he said.

Surging energy demand growth in India and China, plus the concentration of supply growth in a relatively small number of non-OECD countries, means "we are on the eve of a new world energy order," Birol said. "China and India are transforming the world energy market by their sheer size."

James Batty, London

Opec Decision to Maintain Output Supported by Supply-Demand Balance

Opec's decision to leave its production targets unchanged is consistent with the preliminary assessment of oil market conditions for November seen by *International Oil Daily* sister publication *Oil Market Intelligence* (p1).

Supply and demand were almost exactly balanced for the month, with a difference of only 20,000 b/d between the two as an impressive 1 million barrel per day rise in global supply was enough to stay within range of demand despite a 1.74 million b/d monthly jump in demand.

Some late cold weather in key oil-consuming areas like the US Northeast and ongoing growth in demand from developing countries in Asia and the Mideast Gulf pushed demand 1.24 million b/d above the year-earlier month.

But supply was up nearly twice as much on the year as a combination of Opec's reversal of early production cuts and seasonal expansion of non-Opec supply resulted in an estimated 2.37 million b/d year-on-year gain.

Opec began cutting output Nov. 1, 2006, in an effort to dry up what it felt at the time were overly full and potentially expanding OECD inventories. An additional cut from Feb. 1, 2007, took an intended 1.7 million b/d from target production by 10 members of Opec.

The other two members, Iraq and Angola, which joined Opec as of Jan. 1, 2007, have been exempted so far from the production agreements, as will be Ecuador which rejoined the producer group at this week's meeting.

Part of Opec's 265,000 b/d monthly gain was attributable to a better month for both countries as security conditions in Iraq's north are allowing the resumption of tenders of Kirkuk oil out of the Turkish Mediterranean port of Ceyhan and Angola's new fields are ramping up.

Latest Snapshot

million b/d	Nov '07	Chg. vs. Oct '07	Chg. vs. Nov '06
Demand	87.24	+1.74	+1.24
Supply	87.22	+1.97	+2.37

Opec 10 was essentially unchanged on the month as heavy maintenance in the United Arab Emirates was offset by significantly higher Nigerian and Saudi Arabian output and small gains by most other members.

With the UAE coming back in December and new capacity available from Saudi Arabia's Greater Khursaniyah project, Opec 10 output could rise strongly in December, helped by expected increases from Iraq and Angola.

November Iraqi shipments suffered from a bout of bad weather and high winds at the end of the month that delayed several cargoes of Basrah scheduled to be loaded in November.

Bad weather also had an impact on non-Opec output from Russia and Norway. Storms that delayed Russian Black Sea shipments appear to have been enough to cause field shut-ins in West Siberia preliminary government data show, resulting in a 90,000 b/d monthly drop for Russia.

The impact on Norway was less than half that. Seasonal increases elsewhere and more substantial gains from North American producers, which benefited from better weather than in the last several months, contributed to a small gain in non-Opec output for the month.

The extra Opec and non-Opec production was needed to match global demand as inventories remain on the snug side in key markets around the world. Again in November, as has been the case for most of the year, the growth in demand was fueled by non-OECD countries, where demand rose by 3.6% compared to the same month a year ago.

In the OECD, where consumers are generally not shielded by subsidies, demand fell by 0.1%. The US is taking hard hits from high prices, with demand down 166,000 b/d in November to roughly 20.875 million b/d.

US demand has contracted versus the corresponding month in 2006 for six months in a row as high pump prices lower demand, along with other factors such as the subprime mortgage debacle, bloated household debt and general anxiety about the economy.

David Knapp, New York, and Matt Piotrowski, Washington

MARKET EYE: Refining Margins Soften

Brent crude oil futures traded a volatile \$6.46 per barrel range ahead of this week's Opec meeting (see p1). Late Wednesday, January Brent traded at \$89.80, down 96¢ on the week. Dated Brent was assessed at January ICE minus 10¢. Refining margins weakened as crude held up better than products. An incremental barrel of Urals Wednesday posted a \$1.75 profit in a simple Mediterranean refinery, down \$1.85 from the week before, while the same barrel in a cracker made \$3.90, down \$2 over the week.

In Northwest Europe, Urals was in less demand than in the south. On Wednesday, an offer at dated Brent minus \$3.35 faced a bid for slightly later cargo at minus \$3.70. Late Wednesday, the price was assessed at dated Brent minus \$3.50 c.i.f. Rotterdam.

The Med was more active and on Wednesday two trades were concluded: A Dec. 25-29 loading 130,000 ton cargo sold at dated Brent minus \$2.50 c.i.f. Italy, and a Dec. 26-30 80,000 ton cargo was traded at minus \$2.35. This was thought repeatable.

Exports out of the Russian Black Sea terminal at Novorossiysk totaled 662,000 metric tons, down 281,000 tons on last week's one-day longer reporting period. Seven other tankers are waiting to load 693,000 tons, with another two vessels so far scheduled to arrive Thursday for 220,000 tons.

Exports out of the CPC terminal rose 271,000 tons to 836,000 tons on eight vessels. Five tankers are waiting to load 523,000 tons, while six more are expected over the next five days for a total of 611,000 tons. Odessa exported 160,000 tons.

Exports out of Primorsk in the Baltic Sea fell by 100,000 tons to 1.22 million tons on 12 tankers. Late Wednesday, five vessels were in line to load 507,000 tons, and six more are expected to arrive over the coming five days for a further 600,000 tons.

ICE gas oil futures prices followed crude's decline. ICE January traded between \$843.75 per ton last Wednesday and \$778/ton on Monday, and was changing hands at \$791.50/ton at press time.

European middle distillate premiums have declined as supply shortages ease, partly because of unseasonably warm weather that has softened heating oil demand.

Russian gas oil export volumes are also picking up before the European Union switches from 0.2% sulfur in heating oil to 0.1% on Jan. 1, 2008. Most Russian refinery upgrades have concentrated on quantity rather than quality, so exports will need either to be desulfurized or blended with 50 parts per million diesel. There are reports that the Ufa group of refineries is looking at exporting record levels in December.

Fuel oil supply in Northwest Europe has tightened despite increasing volumes from the end of seasonal refinery maintenance. Exports from Russia have reportedly fallen due to attractive domestic prices and low tender volumes, although two tankers totaling 180,000 tons have been booked from Tallinn to load in mid-December. Opportunities for arbitrage have also supported the market, with two very large crude carriers due to load in Rotterdam over the next two weeks. However, freight rates may still be too expensive, according to traders.

Axel Busch, London

Despite Opec Inaction, Crude Falls Further on Stock Build at Cushing

Crude prices slid further on Wednesday after Opec said it would not increase production, a decision that traders had in fact come to expect before it was officially announced (p1).

Prices also moved in reaction to weekly data from the US Energy Information Administration (EIA) showing a huge drop in nationwide crude inventories that was balanced by an unexpected build in refined products.

But perhaps most importantly for prices, stocks at Cushing, Oklahoma, delivery point for the light, sweet crude contract on the New York Mercantile Exchange (Nymex), rose 700,000 barrels to 5.9 million bbl, up for the fourth week in a row.

Traders said prices also came under pressure from a new US intelligence report that cast doubt on whether Iran was trying to develop nuclear weapons.

The Bush administration said it cannot rule out military strikes against Iran, but by neutralizing the primary grounds for such an attack — Iran's alleged pursuit of nuclear weapons — the report removed some of the "risk premium" in oil prices.

Crude on the New York Mercantile Exchange closed down 83¢ at $87.49 per barrel. In London, Brent on ICE Futures lost $1.04 to settle at $88.49.

Crude prices have softened significantly since flirting with the $100 mark only two weeks ago. Nymex oil hit an intraday high of $99.29 on Nov. 21.

Opec's decision was initially treated on Wednesday as slightly bullish, pushing prices up above $90 in morning trading. Prices stayed around that level for most of the day before eventually sliding just before the close.

Ramsey al-Rikabi, New York

Daily Oil & Gas Price Review

Prices for Wednesday, December 5, 2007

Crude Oil

ICE Brent ($/barrel)

US Domestic Grades ($/barrel)

Cash/Spot	Change	Spot Price	5-Day Avg.	Month-Ago
WTS (Midland)	-1.16	87.73	88.40	85.36
LLS (St. James)	-1.10	91.39	92.76	91.74
Mars (Clovelly)	-1.10	75.77	80.85	83.24
ANS (California)	-0.82	84.77	86.56	91.25
Kern River (SJV)	0.00	77.16	78.35	81.85

Crude Oil Futures — Prompt Month ($/barrel)

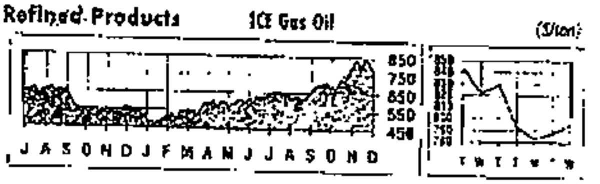
	Change	1st Month	5-Day Avg.	2nd Month	3rd Month
ICE Brent	-1.04	88.49	89.26	88.27	88.07
Nymex Light Sweet	-0.83	87.49	88.97	87.29	87.05

International Crudes ($/barrel)

Cash/Spot	Change	Spot Price	5-Day Avg.	Month-Ago	Year-Ago
Brent (Dated)	-0.73	91.14	90.44	97.73	59.95
Dubai	-0.96	82.43	84.18	85.5[illegible]	[illegible]
Oman	+1.97	86.63	85.36	85.59	56.15
WTI (Cushing)	-2.05	87.42	88.93	94.03	52.9[illegible]
Opec Basket[A]	+[illegible]	85.13	88.02	87.57	55.53
Minas	+1.21	91.61	92.31	95.76	52.15
Tapis	+1.38	96.71	96.85	97.8[illegible]	59.36
Forties	-0.73	91.84	90.28	92.75	57.32
Oseberg	+0.73	92.49	91.70	94.25	57.62
Bonny Light	+0.73	93.74	91.23	94.25	59.52
Urals	+2.23	87.84	87.34	33.45	54.37

Refined Products

ICE Gas Oil ($/ton)



Heating Oil/Gasoline Futures — Prompt Month

Futures	Change	1st Month	5-Day Avg.	2nd Month	3rd Month
Nymex (¢/gal.)					
RBOB Gasoline	-3.47	221.78	224.85	224.15	227.44
Heating Oil	-2.75	212.93	252.98	211.13	246.13
IPE (London)					
Gas Oil ($/ton)	+7.75	795.50	797.60	791.25	781.50
Gas Oil (¢/gal.)	+2.46	252.54	253.21	251.19	248.73

Product Spot Markets	US Gulf Coast Change	US Gulf Coast Spot Price	US Gulf Coast 5-Day Avg.	US Gulf Coast Month-Ago	New York Change	New York Spot Price	New York 5-Day Avg.	New York Month-Ago	Rotterdam ($/ton)[F] Change	Rotterdam Spot Price	Rotterdam 5-Day Avg.	Rotterdam Month-Ago
Gasoline (¢/gal.)												
Regular Gasoline	-4.40	212.75	218.79	238.08	-4.15	219.95	224.58	243.08	-16.00	764.00	771.80	828.00
Premium Gasoline	-4.40	218.45	223.04	253.83	-3.15	229.95	233.44	253.83	-16.00	764.00	771.80	835.00
Regular RBOB	-3.40	214.45	219.10	237.25	-4.90	219.70	224.54	241.58	..	..	...	.
Mid-Distillates (¢/gal.)												
Heating/Gas Oil[B]	-4.53	240.65	247.63	250.4[illegible]	-2.78	247.40	251.53	253.81	-4.50	783.75	796.60	807.25
Low Sulfur Gas Oil/Diesel[C]	-2.53	249.65	254.30	262.04	-2.53	254.40	260.75	261.81	-13.50	888.75	884.25	892.75
Jet Fuel	-8.53	254.15	257.28	263.81	-3.03	258.65	252.22	267.56	-8.50	851.75	863.60	897.25
Fuel Oil ($/bbl)												
1% Sulfur	-3.5[illegible]	61.25[D]	61.71	76.80	-0.69	60.71[E]	60.88	73.13	+17.00	480.00	457.00	469.00
3%-3.5% Sulfur	-2.66	67.00	42.64	73.53	-0.69	65.71	60.76	73.38	+4.00	435.00	429.60	462.50

Natural Gas

		Change	1st Month	2nd Month
US — Henry Hub (Nymex)	$/MMBtu	+0.038	7.185	7.215
US — Henry Hub (Cash)	$/MMBtu	-4.227	7.540	6.726
UK — NBP (Cash)	p/th	-1.55	63.78[G]	..

Product Spot Markets	Singapore Change	Singapore Spot Price	Singapore 5-Day Avg.	Singapore Month-Ago	Mideast Gulf Change	Mideast Gulf Spot Price	Mideast Gulf 5-Day Avg.	Mideast Gulf Month-Ago
Light Ends								
Naphtha ($/bbl)	-1.35	93.49	91.46	89.91	-4.17	795.33	824.45	825.34
Regular Gasoline ($/bbl)	-0.71	95.87	97.35	98.88	...	...	..	..
Mid-Distillates ($/bbl)								
Gas Oil	-0.50	102.83	103.98	105.50	-0.33	104.38	106.58	103.76
Jet/Kerosene	-0.50	107.05	108.88	112.70	-0.25	103.75	108.30	109.81
Fuel Oil ($/ton)								
3% Sulfur	-4.70	471.20	475.39	511.00	-4.56	453.35	461.27	499.43

Produced by OB Daily in cooperation with Reuters.

Notes: All spot assessments on bid prices published by Reuters at 5:30 p.m. ET; changes are from previous published price.
A — Opec basket price is for previous day. Month-ago figure is 20-day average.
B — No. 2 Heating Oil in US; 0.2% Gas Oil in Rotterdam.
C — No. 2 Low Sulfur Diesel in US; Ultra Low Sulfur Diesel in Europe.
D — Low pour.
E — High pour.
F — All Rotterdam prices are f.o.b. barge quotations.
G — Day ahead.

NEWS ALERT
INTERNATIONAL From staff and wire reports

Mideast/Africa

Shell Reshuffles in Nigeria

Royal Dutch Shell is undergoing a management reshuffle in Nigeria as part of its plans to restructure three Nigerian affiliates (IOD Nov.15,p2).

The changes will see Basil Omiyi become full-time chairman of Shell companies in Nigeria, in addition to his current role as head of Shell Petroleum Development Co. (SPDC) and Shell country chairman for Nigeria.

His elevation to full-time chairman reflects Shell Nigeria's importance to Shell and the growing significance of its relations with the executive, legislative and judicial arms of government, Shell said. Omiyi will operate from the capital and center of government, Abuja.

In other moves, Chima Ibeneche has been named new head of Nigeria Liquefied Natural Gas (NLNG), in addition to his position as head of Shell Nigeria Exploration and Production Co. (SNEPCO), which handles the Anglo-Dutch supermajor's deepwater projects in Nigeria.

In addition, Ann Pickard, Shell's executive vice president for exploration and production in Africa, will now double as executive vice president for the Nigerian upstream.

SPDC's current production director, Mutiu Sunmonu, will also become Shell's vice president for production in other parts of Africa, including Cameroon and Gabon, and will be based in Port Harcourt.

New Angola Gas Group Formed

Italy's Eni, Galp of Portugal, Repsol YPF and Gas Natural (GN) of Spain, Independent Exem and the gas subsidiary of Angola's state Sonangol have signed a shareholder agreement to form a consortium to develop an integrated gas project in Angola.

In a statement Wednesday, Repsol said the project consists of evaluating gas reserves "so as to subsequently undertake the necessary investment to develop them and, if applicable, export them in the form of LNG." GN said, "The evaluation of reserves is the first task to be carried out in executing the project."

Eni has a 20% holding in the consortium, Repsol and GN have a combined 20%; Galp has 10%; Switzerland-registered, Angolan-owned Exem 10%; and the gas affiliate of Sonangol, Sonagas, 40%.

GN signed a memorandum of understanding with Sonagas in late June.

The companies involved did not disclose details of the likely exploration area or whether any LNG exports will be linked to Angola LNG (ALNG) or will be a separate project.

At the start of April, Eni took the 13.6% stake previously held by Exxon Mobil in the international consortium developing the $4 billion ALNG project. The remaining interests are held by Chevron (36.4%), Sonangol (22.8%), Total (13.6%) and BP (13.6%) (IOD Apr.3,p7).

The ALNG consortium was set up to build an LNG plant in Soyo, 300 km north of the capital, Luanda.

Total Farms In to Yemen Blocks

France's Total said Wednesday it has signed an agreement with Chinese state Sinopec to take a 40% interest in two onshore exploration blocks in Yemen.

Block 69 is in the central Marib Basin, while Block 71 is in the eastern Masilah Basin, Total said. The acquisition will leave operator Sinopec with a 45.5% interest in the block, state Yemen General Corp. for Oil and Gas with 10% and the Arabian Group of Companies 4.5%.

Total said 2-D seismic has been shot on both blocks and a well is being drilled in Block 69.

Block 69 is near the region that serves the planned Yemen LNG project, while Block 71 is close to Block 10, which Total has operated for 20 years.

Total was among the companies said to have been interested in Yemen's recent offshore licensing round, announced in August (IOD Aug 9,p1).

Asia-Pacific

Petronas Eyes Overseas Boost

Malaysian state Petronas released its fiscal 2007 half-year results Wednesday, revealing strong profit and production performances.

Output rose 7.9% year-on-year to 1.75 million boe/d in the six months to Sep. 30. Of the total, around 65% was produced at home, where output rose 5% to 1.15 million boe/d, equivalent to 71.5% of total Malaysian volumes. Overseas output jumped 14% to 613,000 boe/d, with the biggest boosts coming from Sudan — where production has risen to over 165,000 b/d — and phases 2 and 3 of Iran's giant South Pars project (IOD Jun.11,p5).

Stock Market Scorecard

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	+5.71	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	-1.73	+23.55	+25.76
[illegible]	[illegible]	[illegible]	[illegible]	-5.10	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	-4.71	+19.77	[illegible]
ConocoPhillips	83.36	-1.85	-2.11	-7.50	+22.44	+13.56
BP	73.84	-1.72	-3.56	-3.07	+8.54	+9.01
Shell A	81.67	-3.21	-5.80	-4.15	+14.00	+15.37
Statoil	30.70	-3.51	-3.56	-5.02	+12.19	+18.51
Repsol YPF	[illegible]	[illegible]	[illegible]	-5.07	+10.93	+7.31
[illegible]	[illegible]	[illegible]	[illegible]	+12.16	+55.37	+38.17
[illegible]	[illegible]	[illegible]	[illegible]	+12.15	+6.75	+18.30
[illegible]	[illegible]	[illegible]	[illegible]	+0.26	+18.30	+17.24
Large Independents						
Occidental	70.30	+2.56	+5.30	+3.21	+48.57	+43.59
Anadarko	59.59	+2.34	+4.09	+1.19	+28.05	+35.98
Marathon Oil	73.88	+1.77	+2.45	-3.09	+37.50	+45.29
Apache	96.34	-0.00	-0.01	+1.33	+42.08	+47.92
EOG Resources	85.24	-1.36	-1.57	+3.74	+34.29	+36.49
Chesapeake	37.67	-3.71	-4.34	-1.85	+10.84	-27.57
XTO Energy	67.10	-3.50	-5.55	-5.73	+23.04	+32.26
Devon Energy	85.22	-4.39	-4.47	-5.86	+17.27	+27.04
EnCana	65.50	-5.19	-7.34	-3.25	+34.24	+42.53
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	+5.84	+14.42
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	+8.39	+6.26
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	+5.10	+1.56
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Refiners						
Frontier Oil	[illegible]	[illegible]	[illegible]	-1.59	-33.18	+17.89
Valero	[illegible]	[illegible]	[illegible]	[illegible]	+7.10	+26.27
Sunoco	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tesoro	[illegible]	[illegible]	[illegible]	[illegible]	+32.27	+42.27
Holly	[illegible]	[illegible]	[illegible]	-24.59	-11.34	-4.03
Alon	26.00	[illegible]	[illegible]	-35.51	-35.07	+1.18
Integrated Energy						
Duke Energy	90.47	+1.65	+0.77	+0.83	+13.73	+0.31
Sempra	63.69	+3.69	+6.13	+7.36	+15.74	+34.81
Williams	35.11	-0.54	-1.31	+0.99	+25.80	+34.12
TransCanada	39.94	-2.76	-4.35	+0.69	-14.99	+12.62
Oneok	46.03	-4.28	-4.21	-3.06	+9.29	-8.69
El Paso	16.00	-3.40	-8.47	-7.67	+11.03	-4.2
Enbridge	38.38	-4.49	-10.12	-1.54	+4.02	+11.57
Service Companies						
GlobalSantaFe	84.85	+6.25	+5.16	+9.36	+45.44	+47.72
Transocean	137.25	+5.27	+4.76	+0.95	+42.08	+57.31
Schlumberger	95.80	-0.33	-0.36	-14.17	+40.02	+51.63
Patterson UTI	19.37	-0.83	-3.15	-17.41	-29.07	-16.12
Baker Hughes	81.59	-2.77	-3.70	-15.35	+10.50	+3.28
Ensco	52.93	-2.90	-3.64	-5.75	-2.91	+5.75
Nabors	28.61	-1.42	-4.96	-10.79	-7.41	-10.44
Halliburton	36.30	-2.26	-5.01	-10.02	+5.69	+10.34
Emerging Markets						
[illegible]	102.44	[illegible]	[illegible]	[illegible]	+118.52	+99.32
[illegible]	[illegible]	[illegible]	[illegible]	+5.30	+46.64	+52.57
[illegible]	[illegible]	[illegible]	[illegible]	+7.23	+41.30	+51.36
[illegible]	11.51	[illegible]	[illegible]	+13.94	+5.49	-2.56
Sinopec (China)	[illegible]	-0.37	-0.04	-3.59	+163.63	+71.07
[illegible] (Korea)	43.36	-0.37	-0.79	-7.46	+0.13	-5.54
[illegible] (China)	[illegible]	[illegible]	[illegible]	-1.40	+111.64	+100.37
[illegible]	[illegible]	[illegible]	[illegible]	-4.55	+15.75	+9.75
[illegible]	41.20	-4.01	[illegible]	-4.75	+10.09	+12.11
[illegible]	5.43	-1.27	-16.59	-31.01	-4.51	-39.54
[illegible]	[illegible]	[illegible]	[illegible]	-2.33	+24.10	+7.13
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-40.49	+45.50

[illegible]

Revenues shot up 23% to $29.8 billion, with net profits rising 14.2% to $8.1 billion. Performance was strong across the board, with revenues from oil production increasing 22.3%, from LNG 14.5%, and from refining 37.8%.

Capital expenditure also jumped, with exploration and production spending leaping 68% year-on-year to $2.5 billion. Petrochemical investment increased 84% to $173 million, reflecting recent acquisitions (IOD Jun.19,p3).

India's ONGC Books Rigs

Indian state-run Oil and Natural Gas Corp. (ONGC) has awarded Houston-based rig company Hercules Offshore an order worth up to $284 million.

The US firm said it had been awarded three-year contracts for its Hercules 258 and Hercules 260 jack-up rigs to drill offshore India. Hercules 258 is due to start in May 2008 following completion of an existing job in the area and Hercules 260 in March, after completing shipyard work on the rig. The contract incorporates the costs of moving the rigs to India.

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Japan Product Stocks Fall 4.5%

Japanese oil product stocks fell 4.5% in the week ending Dec. 1, according to data released Wednesday by the Petroleum Association of Japan. Stocks of all products fell across the board, with the largest drop registered in kerosene inventories, which fell 6.7% to 25.81 million bbl. This was followed by a 6.1% fall in gas oil stocks to 10.21 million bbl and a 4.2% drop in naphtha levels to 13.39 million bbl. Both gasoline and jet fuel levels fell 3.8%, with fuel oil stocks decreasing 2.1%.

Refinery utilization in the week rose to 93.1% of total capacity, or 4.56 million b/d, compared to 88.6% the week before.

Japanese Product Stocks

('000 bbl)

	Dec.1	Nov.24	Vol. Chg.	% Chg.
Gasoline	11,949	12,423	-474	-3.8%
Naphtha	13,398	13,898	-500	-4.2
Jet Fuel	5,099	5,300	-201	-3.8
Kerosene	25,810	27,654	-1,844	-6.7
Gas Oil	10,208	10,871	-663	-6.1
Fuel Oil	20,690	[illegible]	[illegible]	-2.1
Total	90,656	[illegible]	[illegible]	-4.5%

India to Shut in Gas Field

India's Oil and Natural Gas Corp. (ONGC) will shut in two production complexes in the major South Bassein gas field early next year to hook up new facilities. The shutdown will cut output from the field, southwest of the giant Mumbai High fields, by 30%. ONGC plans to shut the BPB complex from Jan. 1-Jan. 25 and the BPA complex from Feb. 14-26.

A company official said ONGC will invest about $750 million developing the South Bassein field and $434 million on the satellite Vasai East field. Work entails installing two offshore platforms near existing processing units. The 24-day shutdown of the BPB facility will cut gas output by 13.5 MMcm/d, and the 13-day shutdown of BPA by 11 MMcm/d. That will reduce output to 29 MMcm-31 MMcm/d over the period, versus a normal 42 MMcm/d.

The official said the work on South Bassein is necessary to stop production from sliding sharply this year, while Vasai is not economic on a standalone basis and is being integrated with the existing Bassein facilities.

Europe/FSU

Norway's Revus Grows in UK

Norway's Revus Energy is buying Palace Exploration UK from its privately owned US parent — based in Tulsa, Oklahoma — for $258 million in a deal that should boost production and reserves. The acquisition will lift output to around 7,000 boe/d in 2008. Chief Executive Harald Vabo said Tuesday while reserves and contingent resources will rise by 23.7 million boe to around 107 million boe.

Palace's main asset is a 29% interest in the UK North Sea Broom field, operated by Sweden's Lundin Petroleum, which produces 4,000 boe/d net to the company. Other assets include a 29% stake in the Lundin-operated SW Heather oil discovery; a 50-50 share with Lundin in the recently announced Scolty discovery; and interests in 14 exploration licenses covering 28 blocks.

Revus said it plans to fund the deal through a $150 million underwritten loan with Royal Bank of Scotland, plus new equity and existing cash and debt.

Palace is about to spud an infill well on the Broom field to boost production, with further drilling over the next two years. An appraisal well on the SW Heather field penciled in for 2008 could, if successful, be tied back to the Heather platform for start-up in 2011. Palace is also drilling the Ridgewood exploration prospect in Lundin-operated Block 12-17 and may participate in at least one more exploration well in 2008.

The deal is expected to close in the first quarter of 2008, subject to government approval.

CEZ Considers Bid for MUS

Czech state-owned power incumbent CEZ is reportedly negotiating a $1.6 billion (€1.1 billion) deal to buy Mostecka Uhelna (MUS), the second-largest brown coal producer in the Czech Republic.

CEZ, which declined to comment on the report, owns and operates 15 coal-fueled power stations in the Czech Republic. It also controls three coal-fired power plants in Poland and Bulgaria. About 70% of the company's electricity output is derived from coal-fired power stations.

Out of total electricity production of 51.6 TWh for the first nine months of 2007, coal-fired plants accounted for 31.9 TWh, according to latest financial reports from CEZ.

The company has access to brown coal through wholly owned subsidiary Severoceske Doly.

According to reports, CEZ is only interested in a 100% stake in MUS. The company is 51% owned by Czech Coal, with the remaining 49% interest held by Indoverse Czech Coal Investments, a Cyprus-based investment vehicle for Czech businessman Pavel Tykac.

Czech Coal is willing to sell its 51% interest, according to regional newspaper Mlada Fronta Dnes; however, no details of Tykac's preference were given by the report.

Earnings Dip at Gazprom

Russian gas giant Gazprom saw earnings drop 2.6% in the first half of 2007 because of higher operating expenses and other costs. The results are below analysts' expectations.

The state-controlled company reported a net profit of 313.18 billion rubles ($12.8 billion) for the six months, according to unaudited accounts prepared in line with international accounting standards. This compares with 321.49 billion rubles in the same period of 2006.

Operating profit fell 13.2% to 351.68 billion rubles, while net sales revenues rose by 5% to almost 1.14 trillion rubles, fueled by higher prices both at home and in the former Soviet Union (FSU), the company said.

Gazprom sold 254.9 Bcm of gas in the six months, a 4% decrease over the same period of 2006, due to abnormally warm winter.

Domestic gas sales totaled 165.1 Bcm, down from 170.8 Bcm in the first half of 2006. Sales of gas to Europe fell to 79.4 Bcm from 84.9 Bcm. Sales to consumers in FSU were also down 1.4% at 50.4 Bcm.

EU Tells Spain to Lift Conditions

The European Commission has told Spain to scrap certain nationalistic conditions attached to Italy's Enel and Spanish Acciona's protracted acquisition of Spanish power company Endesa. It says the conditions, imposed by Spanish energy watchdog Comision Nacional de Energia (CNE), are incompatible with Article 21 of the European Union Merger Regulation.

The offending conditions are that Endesa will remain an independent Spanish company with its decision-making nucleus in Spain, source a certain volume of coal from national companies; and keep nonmainland electricity assets within the parent group.

Using EU legislation — which has jurisdiction over member state competition law — Brussels has stipulated that the illegal conditions be scrapped by Jan. 10, 2008.

The confirmation from Brussels of EU law infringement follows a preliminary ruling against Madrid earlier in the year (IOD Sep.24,p9).

Enel and Acciona now hold more than 92% of Endesa, Spain's biggest electricity company. Brussels officially approved the acquisition on Jul. 5, finding that the deal would not impede effective competition in the European Economic Area or any substantial part of it.

Eni Fined over Rubber Cartel

The EU Commission has fined four producers of chloroprene rubber a total of €243.21 million ($356 million) for price-fixing offenses across the European Economic Area (EEA) over a 10-year period to 2002.

Italy's Eni must pay €132.2 million, including a 60% surcharge reflecting past offenses. DuPont and Japanese firms Denka and Tosoh were also fined. Part of DuPont's fine is charged to Dow Chemicals. A fifth company, Bayer, would have been fined €201 million but blew the whistle, so was excused.

Chloroprene rubber is used for components in a range of industrial products — as latex for the production of diving equipment, condoms and the inner soles of shoes, and as adhesive.

Only last week, Eni's appeal against a €117 million fine over rigged jet fuel pricing was thrown out by an Italian court (IOD Dec 4,p8). A year ago, Eni was among five firms fined for a separate price-fixing cartel on sales of synthetic rubber used in car tires, sports goods and floor coverings (IOD Nov 30'06,p8).

Americas

PDV Creates Seismic JV

The state-owned oil companies of Venezuela and Belarus have created a joint venture oil services company that will perform seismic work called Sismica Bielovenezolana, Petroleos de Venezuela (PDV) said in a statement Wednesday.

PDV and Belarusneft will be partners in the joint venture, PDV said, but it did not provide the percentage ownership stakes that each company will hold.

The new company is the first of its kind owned by the Venezuelan government to perform seismic work in Venezuela. It is also part of President Hugo Chavez's plans to limit the oil industry's dependence on foreign companies, according to Dow Jones Newswires.

The new company will perform initial seismic work this month in the state of Guarico, and will support PDV's ongoing quantification and certification studies of oil reserves in the Boyaca fields along the Orinoco River Belt, PDV said.

Minister Says Iran Has Funds for Expansions

Forced by a lack of access to external financing due to [illegible] sanctions, Iran says [illegible] funds to [illegible]

[illegible] from [illegible] revenues [illegible] as [illegible] production [illegible] Oil Minister Gholamhossein Nozari told reporters on Wednesday after the Opec meeting in Abu Dhabi.

Nozari said Iran's Azadegan field — abandoned by Japanese producer Inpex — is now being developed by Iran itself and will be producing [illegible] b/d before the end of January. The field's output will be expanded to 50,000 b/d by the end of next year, he added.

Iran is producing below its capacity at 4.15 million b/d, Nozari claimed, although industry sources put the nation's output at closer to 3.8 million b/d.

"We need $150 billion to $260 billion of investments," Nozari said, referring to oil and gas investment [illegible] by 2015. "For the next 20 years [illegible] billion."

With [illegible]

Tehran has looked inward for the cash it needs to [illegible] expansion programs.

Nozari said [illegible] for the expansion [illegible] other fields [illegible] production.

[illegible] fund and from [illegible] of these fields. [illegible] generated for expansion [illegible] the minister said.

The [illegible] has already won approval from the government and parliament for funding the expansion program in this way, he said.

Iran said its long-delayed Salman gas field project, which will deliver up to 600 million cubic feet of gas per day to the United Arab Emirates, will be commissioned by April, but that a price dispute with UAE gas purchaser Crescent Petroleum is still not resolved.

Nozari and Syrian Oil Minister Sufian Alou said the two countries continued discussions on Wednesday about supplying Syria with Iranian natural gas, but they gave no timetable for the project. Omani Oil Minister Mohammed al-Rumhy said there has been no progress [illegible] memorandum of understanding [illegible] of gas to Oman [illegible]

[illegible] Abu Dhabi

Venezuela Refinery Down

Venezuela's 300,000 b/d Cardon oil refinery will be out of service for some seven days due to a power outage last Monday, according to press reports.

The outage was caused by a system overload that paralyzed all units at the refinery, state-owned Petroleos de Venezuela (PDV) said in a statement Wednesday.

PDV said it has enough inventory to guarantee normal fuel deliveries to the domestic and international markets.

The company did not specify how long Cardon will be out of service, but Reuters quoted unnamed refinery sources as saying it will take around seven days for normal operations to be restored.

Cardon is part of Venezuela's Paraguana complex, which also includes the Amuay refinery. The plant has a total refining capacity of 940,000 b/d.

Biofuel Plant to Open in US

Canada-based Dynamotive Energy Systems has announced plans to invest $24 million to build an industrial biofuel plant in Willow Springs, 180 miles southwest of St. Louis, Missouri.

The site was chosen for its ready access to rail transport, proximity to biomass and the potential to host up to four additional facilities.

The modular, second-generation biomass-to-biofuel plant is designed to use Dynamotive's fast pyrolysis process to convert 200 tons per day of wood by-products and residues from nearby sawmills into 34,000 gallons per day of BioOil.

BioOil is a clean-burning industrial fuel produced from cellulose waste material.

The BioOil produced at the Willow Springs complex is expected to be sold to commercial and industrial users in the region.

Congress Close on Energy Bill

US House Democrats were scrambling Wednesday to attract votes for a new version of the pending energy bill that would raise $21 billion in taxes, mainly by repealing tax breaks for the oil and gas industry.

The tax provision and other controversial measures cast doubt over whether Democratic House Speaker Nancy Pelosi would be able to muscle the comprehensive bill to the House floor for a vote Wednesday as planned.

The bill was still expected to pass the House this week, although its prospects of being considered Wednesday were looking increasingly doubtful as the afternoon wore on.

Democrats have already brokered compromises on raising automobile fuel efficiency standards to 35 miles per gallon by 2020, and increasing production of ethanol and other biofuels as gasoline additives to 36 billion gallons per year by 2022.

However, the massive tax measure and a renewable energy mandate for electric utilities face staunch opposition from Senate Republicans.

The tax language would repeal about $13.5 billion in tax breaks and credits for major oil companies.

Republicans say they have the votes in the Senate to block a bill containing the controversial provisions. President Bush has also said the measures would attract his veto pen.

Democrats did agree to remove an anti-price gouging provision and language allowing the government to sue Opec nations from the bill. Both provisions were the subject of a White House veto threat.

The Rules Committee was still waiting late Wednesday to see exact language of the bill, reducing the chances it would make it to the floor before Thursday.

EXHIBIT H

UBS

Global Equity Research

Global

Oil Companies, Major

Sector Comment

Daily Oil News

6 December 2007

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Key Headlines

- **Oil price tumbles after DOE data**

The front month Brent contract fell $1.53/bbl to $88/bbl from a high of over $91 after OPEC announced no change in production quota. Prices ticked off a little after this spike but fell with the DOE inventory data release, reacting to the builds in gasoline and middle distillate rather than the surprisingly large draw in crude.

- **BP: Sunrise heralds the dawn of oil sands at BP**

BP and Husky Energy are to form 2 50:50 joint ventures to hold the Sunrise oil sands project and the Toledo refinery, creating an integrated production and upgrading operation. We think BP has changed its mind for some time about the desirability of oil sands but was clear that it needed the right opportunity. We see a change in CEO and changed view of where long-term oil prices will be as major facilitators to this deal.

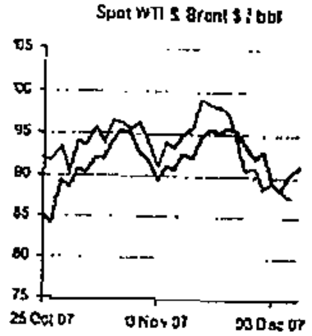
- **MOL proposes central European gas network**

MOL wants to create a central European natural gas transmission company to improve security of supply, expand gas networks and improve the region's ability to attract financing for networks.

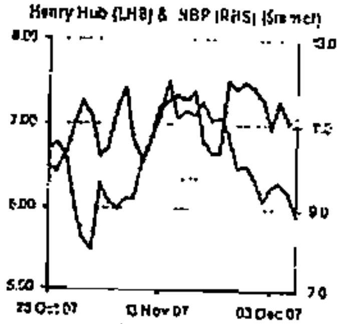
- **China may halt fuel import tax to tackle crisis**

China may suspend import tariffs on oil products for some companies as part of a range of finance and tax measures to tackle a fuel crisis, its top energy planner said on Wednesday.

Spot WTI $ Brent $ / bbl



Henry Hub (LHS) & NBP (RHS) ($/mcf)



Indices	05-Dec	04-Dec	Chg %
S&P 500	1485	1463	1.5%
UBS World Oils	1842	1855	-0.4%
UBS US Oils	1481	1465	1.2%
UBS Euro Oils	2642	2680	-1.1%
UBS Asian Oils	3182	3243	-1.2%
UBS Canadian Oils	1564	1500	4.2%

Oil & Gas Spot and Futures Prices			
WE		05-Dec	Day Chg
Brent Spot	$/bbl	$89.15	$0.73
Brent 1 month	$/bbl	$88.[illegible]	-$1.54
WTI 1 month	$/bbl	$87.[illegible]	-$2.03
WTI 2 month	$/bbl	$87.18	-$1.10
Henry Hub Gas	$/mmbtu	$7.[illegible]	-$0.21
NBP UK gas	p/therm	47.75p	-7.33p

Stock Prices	Price	Day Chg %
Best Performers		
First Calgary	2.55	7.1%
SBM Offshore	22.17	5.8%
Petroleum Geo-Services	137.11	5.5%
PHI	38.18	5.3%
Cairn Energy	3145.00	5.3%
Talnet	1.19	4.6%

Stock Prices	Price	Day Chg %
Worst Performers		
Tap Oil	2.25	-4.8%
Aker Kvaerner ASA	152.00	-2.8%
Frontier Oil Corporation	47	-2.0%
Australian Worldwide	3	-1.5%
Cameron Hanover	17.58	-1.8%
Rider Resources	3.43	-1.5%

Refining Margins (Reuters)			12 m avg
US Gulf	$/bbl	1.68	-7.57
Europe	$/bbl	+4.54	-4.54
Asia	$/bbl	+3.43	-7.53

Exchange Rates	
US$ / Euro	1.45
US$ / HK$	5.51
US$ / C$	2.31

This report has been prepared by UBS Limited

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 7. UK Takeover Panel Disclosure: UBS Limited is acting as advisor to Burren Energy in respect of the recommended offer from Eni.

Oil Market News

Oil price comment

Oil price: $88 -$1.53/bbl Price tumbled from a high of over $91 after OPEC announced no changed in production quota. Prices ticked off a little after this spike but fell with the DOE inventory data release, reacting to the builds in gasoline and middle distillate rather than the surprisingly large draw in crude (there may also have been a technical impact from the fact that there was a crude build at Cushing, the pricing point for WTI) . $1.50/bbl of the fall took place after European equity markets closed. The USD was also strengthening yesterday which consistent with recent patterns is consistent with a fall in oil Gasoline prices fell 3.5c to $2.217/gallon and heating oil prices fell 2.25c to $2.489/gallon.

Opec Keeps Output Steady, Predicting Surplus

Opec oil ministers decided to hold oil output steady at their meeting in Abu Dhabi Wednesday, despite pressure to raise production to cool prices. Traders had widely expected an increase of at least 500,000 barrels per day, but an Opec official said after the meeting that the option was never on the table. Oil prices jumped $2 per barrel immediately after the decision was announced, but ended the day down. The group said it will meet again on Feb. 1, ahead of a meeting already planned for Mar. 5, to allow it to keep an eye on "market uncertainties."(IOD)

Oman Set to Start Reversing Output Decline in 2008, Minister Says

Oman will boost output more than 50,000 barrels per day to around 800,000 b/d in 2008, on the back of higher production from the Mukhaizna oil field — clawing back some of the decline that has seen output drop from a peak of 840,000 b/d in 2000 — Omani Oil Minister Mohammed al-Rumhi tells International Oil Daily.(IOD)

Minister Says Iran Has Funds for Expansions

Forced by a lack of access to external financing due to US financial sanctions, Iran says it will use internally generated funds to boost its oil output by 1 million barrels per day to 5.3 million b/d in the next seven years and double its natural gas output to 1 billion cubic meters per day. Those funds will be derived in part from revenues that flow into government coffers as a result of early production from oil field expansion projects, Iranian Petroleum Minister Gholamhossein Nozari told reporters on Wednesday after the Opec meeting in Abu Dhabi. (IOD)

China may halt fuel import tax to tackle crisis

China may suspend import tariffs on oil products for some companies as part of a range of finance and tax measures to tackle a fuel crisis, its top energy planner said on Wednesday. The National Development and Reform Commission acknowledged in a statement that low state-set fuel prices were still causing diesel shortages and some areas faced dry pumps or rationing as refiners shunned the loss-making market. (Reuters)

China-Russia crude pipe costs hit $12 bln

The cost of a crude pipeline from Russia to China has risen to $12 billion, and the two countries' struggle to agree a pricing deal for a similar gas pipe could drag on for years, a Russian energy official said on Wednesday. Vladimir Saenko, deputy head of the fuel and energy department at the Ministry of Industry and Energy, said a global escalation in raw materials costs and the depreciation of the dollar had boosted the link's costs. "Currently we are talking about approximately $12 billion dollars. This has to do firstly with the fact that pipes got more expensive, the dollar to euro exchange rate and some other global economic trends," he told an industry conference in Beijing.

Company News

TNK-BP to spend up to $1.5 bln on refinery upgrades

TNK-BP will invest up to $1.5 billion on refinery upgrades over the next five years to meet growing demand for high-quality products in Russia and abroad, an executive said. "Demand for cleaner fuels is placing additional pressure on refining industry around the world. We are now looking at next-generation investment," Tony Considine, TNK-BP's vice-president for refining, told reporters on Wednesday. (Reuters)

Shell Reshuffles in Nigeria

Royal Dutch Shell is undergoing a management reshuffle in Nigeria as part of its plans to restructure three Nigerian affiliates. The changes will see Basil Omiyi become full-time chairman of Shell companies in Nigeria, in addition to his current role as head of Shell Petroleum Development Co. and Shell country chairman for Nigeria. In other moves, Chima Ibeneche has been named new head of Nigeria Liquefied Natural Gas in addition to his position as head of Shell Nigeria Exploration and Production Co. which handles the Anglo-Dutch supermajor's deepwater projects in Nigeria. In addition, Ann Pickard, Shell's executive vice president for exploration and production in Africa, will now double as executive vice president for the Nigerian upstream. (IOD)

Total buys 40 pct stake in two blocks in Yemen

Total said on Wednesday it had acquired a 40 percent stake in two onshore exploration blocks operated by Sinopec in Yemen. Block 69 covers an area of 1,333 square km located in central Yeme's Marib Basin, home to the reserves that feed the Yemen LNG liquefied natural gas (LNG) project, Total said. The block 71 covers an area of 1,800 square km and is located in eastern Yemen's Masilah Basin. (Reuters)

Nigeria gas project timeline seen difficult-Conoco

Hopes for an investment decision on Nigeria's delayed $8.5 billion Brass LNG project by next year and the start of shipments by 2013 may be too optimistic, a ConocoPhillips executive said on Wednesday. The Brass liquefied natural gas project has been held up for about a year by security concerns following a series of militant attacks on oil industry facilities near the project site in the Niger Delta in southern Nigeria. (Reuters)

MOL proposes central European gas network

MOL wants to create a central European natural gas transmission company to improve security of supply, expand gas networks and improve the region's ability to attract financing for networks. MOL has invited transmission firms from Austria, Serbia, Slovenia, Croatia, Bosnia-Herzegovina, Romania and Bulgaria to pool their gas networks into a jointly owned corporation. The combination would create the third biggest transmission firm in Europe with nearly 27,000 kilometres of pipeline. (Reuters)

Gazprom says Ukraine deal makes Europe supply safer

Gazprom said on Wednesday its fresh deal with Ukraine over gas supplies and prices for 2008 has created additional guarantees for smooth supplies to Europe. On Tuesday, Ukraine agreed to raise payments for Russian gas by 35 percent in 2008 to $179.5 per 1,000 cubic metres and on Wednesday the two sides signed a supply agreement. Gazprom in turn agreed to raise gas transit fees by 6 percent. "The deal over gas prices for Ukraine and the transit agreement create additional guarantees for stable Russian gas

supplies to European consumers." Gazprom's chief executive Alexei Miller said in a statement. (Reuters)

New Angola Gas Group Formed

Eni, Galp, Repsol YPF and Gas Natural, independent Exem and the gas subsidiary of Angola's state Sonangol have signed a shareholder agreement to form a consortium to develop an integrated gas project in Angola. In a statement Wednesday, Repsol said the project consists of evaluating gas reserves "so as to subsequently undertake the necessary investment to develop them and, if applicable, export them in the form of LNG." GN said, "The evaluation of reserves is the first task to be carried out in executing the project." (IOD)

Tesoro adopted poison pill after deal rejected-CEO

Tesoro board of directors adopted a poison pill after investor Kirk Kerkorian's Tracinda Corp rejected a deal that would have limited Tracinda's percentage of Tesoro's shares, said Tesoro Chairman and Chief Executive Bruce Smith. Tracinda spokesman declined to discuss Smith's comments. Tracinda withdrew its tender offer last week after the poison pill was adopted. (Reuters)

Syncrude production slashed as fire hobbles coker

Canadian Oil Sands Trust the biggest shareholder in the Syncrude Canada oil sands venture in northern Alberta, said on Wednesday a fire at a coker unit at the project site has cut production of synthetic crude from the unit to "minimum rates." It could not say how long output would be cut back at the project, which normally produces about 350,000 barrels a day. (Reuters)

Hercules Offshore bags jackup rig contracts from India's ONGC

Hercules Offshore Inc said Oil and Natural Gas awarded three-year contracts for two jackup rigs for drilling operations in offshore India. Houston-based Hercules Offshore expects revenue of about $121 million for jackup rig Hercules 258 and about $156.6 million for Hercules 260, which excludes payment to the company of reimbursable expenses and a total of about $6.5 million for mobilization of both rigs. (Reuters)

ONGC Videsh, Hinduja eye Iran energy assets

ONGC Videsh join up with the Hinduja Group in a bid to develop two major oil and gas assets in Iran, a senior company source said on Wednesday after its board agreed the move. Iran is drawing interest from Indian and Chinese firms that are keen to tap the world's second-largest reserves of oil and gas and are less susceptible than many other companies to Western pressure over Tehran's nuclear programme. (Reuters)

UBS Publication

BP: Sunrise heralds the dawn of oil sands at BP

BP, the oil sands' biggest hold out, has finally succumbed. It and Husky Energy are to form 2 50:50 joint ventures to hold the Sunrise oil sands project and the Toledo refinery, creating an integrated production and upgrading operation. We think BP has changed its mind for some time about the desirability of oil sands but was clear that it needed the right opportunity. We see a change in CEO and changed view of where long-term oil prices will be as major facilitators to this deal. BP's material Mid-West refining presence is a key lever into the oil sands. We believe the terms look fair. We believe the arrangement is workable and value accretive. We have been looking for BP to do such a deal for a while since it helps to de-risk its upstream portfolio, adds long-term cashflows and visibility, gives more price sensitivity, and helps to develop know-how in an area we believe will be increasingly important, globally. Valuation is clearly not challenging. 2008E and 2009E PE is sub 10x on our $74/bbl forecast. Our price target implies a 2008E PE of 11.7x, a 6% discount to Shell and an 8% discount to TOTAL, and an EV/DACF of 8x, in line with Shell. Our target is supported by a detailed DCF model and a sum-of-the-parts analysis that shows our target implies $15.25/boe (1P).

Asian Oil & Gas - Outlook 2008: Bullish on the upstream, cautious on refiners

With our view of continued higher crude oil prices driven by supply constraints in the next few years, we continue to favour stocks with upstream exposure, particularly CNOOC. However, we see risks emerging in the Asian refining sector. It is becoming increasingly clear that the Chinese government views higher oil and gas prices as a structural problem, and therefore more aggressive domestic oil and gas price hikes are likely, in our view. We expect this to benefit Sinopec and, to a lesser extent, PetroChina. Events plays will be focused in China in the next six month, on the possible A share listing of CNOOC. We are Overweight CNOOC and SK Energy, which have upstream exposure. We Underweight PTT because of LPG subsidies. We have a cautious view on the refining sector. In petrochemicals, we are selective and continue to like stocks that have PVC exposure. We are Underweight PetroChina because of short-term selling pressure after the A-share listing.

Weekly Oil Data: Crude oil stocks plunged on low imports, high runs; but downstream looks softer

US crude oil fundamentals strengthened significantly last week. Imports plunged - 9.5% to 9.37 million barrels per day wk/wk, chopping their 4wk average down to 10-mmb/d. Refiners only had to reduce runs by -0.1% wk/wk, which then explains how stocks fell without inventories in Padd II coming down on the back of the major pipeline fire last Thursday. Stock draws were concentrated in Padd III (-5.7mmbls, -3.7%) where fog delays played a role, and Padd I (-2.3mmbls, -13%). Japanese inventory numbers also showed a major draw on crude oil stocks (- 2.8mmbls; -2.6%) last week. Those stocks were already low (-10% to 5yr norm). On a 4wk average basis, demand for transport-fuels grew (+0.8%, y/y) for a second week. Most positive were middle distillate +2% & fuel oil, +16%. Only 2 weeks into a refiner output rebound, product stocks rose +4.1mmbls (+0.6%). Normal is +1.8mmbls. Gasoline rose +2% and distillates +1% as well

Husky Energy Inc.: Husky Enters Into Oil Sands JV With BP

Husky and BP announced the formation of an oil sands JV. HSE will contribute a 50% stake in its 3.2 billion barrel Sunrise SAGD oil sands project and BP will contribute a 50% interest in its 155,000 bbl/d Toledo refinery. This is a similar structure to the ECA/COP oil sands JV that was created last year - a structure that aligns owners interests and appears to be functioning very well. HSE has estimated the costs for Sunrise 1 at $3 billion ($50,000 per bbl/d) but we expect future phases to be developed at approx $32,500 per bbl/d for a weighted average cost of $38,000 per bbl/d. The costs for the Toledo refinery project are estimated at $2.5 billion (approx. $33,000 per bbl/d) for a total integrated cost of approx. $71,000 per bbl/d - this is substantially lower cost than a stand-alone upgrader and will deliver a higher cash flow stream than an upgrader. Given this deal HSE will now convert the Lima refinery to handle conventional heavy oil rather than bitumen and will defer the expansion of the Lloydminster upgrader. Between Toledo, Lima and the Lloyd upgrader HSE's Western Canadian oil business will be fully integrated by 2013. We are increasing our target price

to $52.50 from $50.00, which is in line with our NAVPS estimate (8%, a-tax) and 9.0x 2009E EV/DACF, and 15.8x 2009E earnings.

Tesoro Corp.: TSO Unveils a Strong Suite of Organic Growth Projects

1) TSO estimates total cumulative capex spending of around $5 billion, for 2008E through 2012E; (2) expects to pursue organic growth projects that will generate annual EBITDA enhancement of $1,390 million, and (3) forecasts a 15% CAGR growth in EPS (2008-2012) on essentially a flat margin environment (forecast based on benchmark margins averaging 2004-2007 levels). TSO expects to focus on organic growth projects (Golden Eagle, Anacortes, Kapolei, etc refineries) coupled with investments at the Los Angeles refinery. Management expects no share buybacks, and organic growth projects are expected to generate reasonable returns. Tesoro's 2007E ROCE at 17% is well below the peer group average of 30% (Big 3 average at 19%). We estimate 2008E ROCE at 14% (below peer group average at 17%). Our $58 price target is based on our estimate of TSO trading at 9.5x normalized 2008 EBITDA, slightly above its historical average. We maintain our Neutral rating.

UTS Energy Corporation: Area 2 Confirmed As Major New Resource With Plenty Of Upside

UTS announced resource estimates for Lease 311 and area. UTS estimates that L311 and area contain 2-2.8 (1.0-1.4 billion net) barrels of recoverable resources. While these estimates are lower than what we had assumed for L311 and area (1.6 billion net) it still confirms a massive new bitumen deposit. UTS has had very encouraging results on lease 840, with the southern portion encountering oil sands on 6 of the 10 wells drilled on this lease (3 of them considered mineable) and clearly indicating there is upside to the 2-2.8 billion barrels (1-1.4 billion net) that UTS has already found on Area 2 (L311 and area). UTS's valuation continues to be supported entirely by Fort Hills and, as such, provides investors with an attractive opportunity on L14, Area 2&3. We have revised our NAV to incorporate UTS estimates of L311 and area as well as our estimate of 500 mmbls for L610&840. Overall our NAV estimate has increased slightly but we continue to believe there could be substantial upside to our NAV following this winter's drilling program. We maintain our Buy rating and $8.50 target price which is based on a 12% discount to our NAVPS estimate.

Nexen Inc.: 2008 Guidance; Low Capital Spending & Low Production Growth

NXY released its 2008 capital budget and production guidance. NXY is planning to spend only $2.4 billion in 2008 versus our forecast of $3.7 billion and 2007 spending of $3.5. The key variance in capital spending relative to our estimates is lower spending in the Gulf of Mexico and Canada. NXY is guiding for 2008 production (before royalties) of 260,000 to 280,000 boe/d versus our forecast of 293,000 boe/d. We have reduced our 2008 production forecast to 269,000 boe/d and our 2009 production forecast from 300,000 boe/d to 277,000 boe/d. The largest change to our forecast is the US Gulf of Mexico and Yemen. We view NXY's 2008 production outlook revised growth targets for 2008 as a disappointing follow-up to the company's weak performance in 2007. While we continue to believe that NXY represents compelling long-term value, we think the stock will remain range bound until the company can demonstrate reasonable growth and execution. We are reducing our target from $42 to $38 which is based on a 6.7x EV/DACF multiple on our revised 2009 estimates

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Statement of Risk

The risks associated with our oil investment theses include lower oil and natural gas prices, margins for global refining, marketing, and chemicals, as well as normal exploration risks associated with the oil and gas business. E&P companies are subject to risks associated with unexpected movements in volatile natural gas and crude oil prices, as well as the impact that political, economic and meteorological events could impart. Moreover, E&P companies are subject to geologic risk (i.e., exploration risk).

Investing in oilfield service stocks is an inherently risky affair and not for the faint of heart. The stocks are among the most volatile in the equity market. Furthermore, industry conditions and activity levels are subject to numerous risks including: weather, commodity price changes, political events in numerous countries around the world, global and regional economic conditions, rapidly changing earnings conditions, merger and acquisition activity by its customers (oil companies), changing technologies, and access to capital both within the industry and for the customers. Therefore, caution should be exercised when analyzing and investing in oilfield service stocks. The offshore construction market is very competitive and there has been significant overcapacity in the past. This can lead some competitors to bid too aggressively for work, which has the potential to diminish profit margins for all participants.

Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

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Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
BP[2a, 4a, 5a, 6, 16, 19, 22]	BP.L	Buy	N/A	609p	05 Dec 2007
Eni[2a, 4a, 5a, 15, 16, 17]	ENI.MI	Buy	N/A	€24.87	05 Dec 2007
ExxonMobil Corp.[4b, 7, 8, 18, 19]	XOM.N	Buy	N/A	US$89.92	05 Dec 2007
Gazprom[2a, 4c, 5a, 20]	GAZPq.L	Suspended	N/A	US$58.40	05 Dec 2007
Lukoil[4c, 16, 28, 29]	LKOH.RTS	Buy (CBE)	N/A	US$88.20	05 Dec 2007
Mol[3a, 3b, 4a, 5a]	MOLB.BU	Restricted	N/A	HUF25,600.00	05 Dec 2007
Nexen Inc.[2b, 16]	NXY.TO	Buy	N/A	C$28.42	05 Dec 2007
OMV[3b, 4a, 16]	OMVV.VI	Restricted	N/A	€49.50	05 Dec 2007
Petroleo Brasileiro[2a, 4a, 5a, 16, 20]	PETR4.SA	Buy (CBE)	N/A	R$78.50	05 Dec 2007
Royal Dutch Shell[2c, 4a, 5a, 15, 27]	RDSa.L	Buy	N/A	2,030p	05 Dec 2007
StatoilHydro ASA[2b, 4a, 5a, 16]	STL.OL	Buy	N/A	NKr182.50	05 Dec 2007
Sunoco Inc.[2a, 4a, 16]	SUN.N	Neutral	N/A	US$63.98	05 Dec 2007
TOTAL[2c, 4a, 12, 16]	TOTF.PA	Buy	N/A	€56.33	05 Dec 2007
UTS Energy Corporation[2d, 4a, 30]	UTS.TO	Buy	N/A	C$5.42	05 Dec 2007
Woodside Petroleum Limited[2a, 4c, 6, 16]	WPL.AX	Neutral	N/A	A$47.05	05 Dec 2007

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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EXHIBIT 2 TO LANE DECL.

Energy Intelligence

Vol. 57, No. 1, Tuesday, January 2, 2007

OIL DAILY

Today's complete oil and gas news briefing

Exxon Challenges Point Thomson Ruling

Exxon Mobil is asking the Alaskan Supreme Court to reverse or remand for further review decisions taken in November by the Alaska Department of Natural Resources (DNR) regarding the undeveloped Point Thomson unit (PTU) on the North Slope.

In late November the DNR stripped Exxon and its partners in the PTU of their leases in the natural gas-condensate field for failure to develop the property (OD Nov. 29,p1). Exxon is the operator and 53% owner of the 106,200-acre tract east of Prudhoe Bay. Other partners are BP (29%), Chevron (14%) and ConocoPhillips (3%).

The department claimed that the companies had been in default on their leases since October 2005. No action was taken, however, while the state and the producers were in negotiations with the state and then Gov. Frank Murkowski over fiscal and regulatory terms of a $25 billion natural gas pipeline.

The state legislature rejected an agreement the producers and Murkowski reached, and voters rejected Murkowski in the Republican primary in favor of Sarah Palin, who took office earlier this month.

On Wednesday, Marty Rutherford, acting DNR commissioner, upheld the action taken by predecessor Mike Menge in November. "The facts clearly uphold Mike Menge's decision to terminate the Point Thomson Unit agreement," Rutherford said in a statement. "I agree that Exxon Mobil has not met its obligations, and I must deny them the relief they sought in their reconsideration request."

Exxon didn't wait for the second rejection to proceed with legal action. It filed its suit on Dec. 22 in connection with Menge's November decision. The company cited a number of procedural, contractual and constitutional errors it claims the state has made. BP, Chevron and Conoco previously had taken legal action against the state.

The initial Point Thomson discovery was in 1977, during the initial efforts to develop a natural gas pipeline to the US lower 48. Plans were dropped due to a collapse in natural gas prices in the early 1980s.

Over the past 25 years, Exxon and partners had submitted 22 proposals for developing PTU, which contains an estimated 9 billion cubic feet of natural gas and 300 million barrels of condensates. The lack of a gas pipeline to transport production to market had hindered development, though various proposals had called for recovering the liquids through a gas-cycling scheme.

In a statement, Exxon indicated that it was prepared for a lengthy and costly judicial fight. "Exxon Mobil is disappointed that the state did not approve the modified

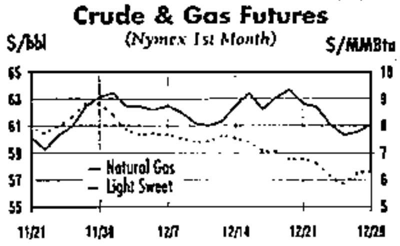
(See Exxon, page 2)

News in Review

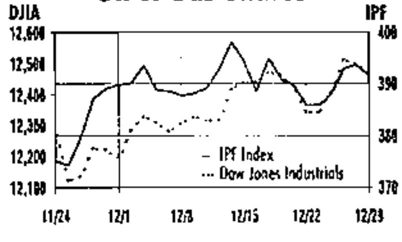
In This Issue:

Latest Market Trends

Crude & Gas Futures



Oil & Gas Shares



Mexico's 2007 Budget Harsh on Pemex

Mexico's lower house of Congress approved a $208 billion spending bill for 2007, which will fund new social programs and decrease the amount of money disbursed by the government to state oil company Pemex.

Confident that high oil prices are here to stay, officials at Mexico's Finance Ministry calculated the budget with an oil price averaging $42.08 per barrel, up more than $6 from the $36.05/bbl used to calculate last year's budget.

The latest crude price estimate differs from previous ones because it is the first time it will based on an objective pricing formula. In previous years estimates of future crude prices were left to the discretion of the government and Congress, HSBC Bank Senior Economist Juan Pedro Treviño explains. "This is an important development that creates a more independent budget," he said.

The formula is made up of the average price of the Mexican crude mix over the past 10 years; the average price of 2007-2011 futures contracts and the expected closing price of future contracts in 2007, said Marco Oviedo, an official at the Ministry of Finance in Mexico City.

Despite a drop in crude prices this year, many analysts expect prices to rebound in 2007 because of Opec's pledges to cut production in line with market balances (OD Dec.15,p1).

With prices expected to remain strong, Mexico's finance ministry expects oil revenues to increase by 7.8 billion pesos ($716 million). This pushed legislators to reduce the amount of money Pemex will get from the government by about 2% or $321 million. Pemex hands over nearly two thirds of its revenues back to the federal government.

(See Mexico, page 2)

Natgas Traders Watching Weather Forecasts, Storage Data

Like a broken record, near-term weather forecasts and storage data are once again going to be the main thrust that natural gas traders will be focusing on when the market returns to work following the long holiday weekend. Unless an unforeseen cold weather anomaly emerges, market bulls are likely to scatter, as all indications are for further downside for February gas futures.

"Weather is going to be the main focus, and if the forecasts confirm bearish when the market returns to work after the New Year, then that's when we'll see prices resume the downward trend," said one futures trader in New York.

Amid an abbreviated pre-holiday futures trading session, the Nymex February gas futures contract closed at $6.299/MMBtu, up 5.1¢ on the day Friday; yet it lost 33.6¢ for the week. Earlier in the week, the January gas futures contract rolled off the board at $5.838/MMBtu, down 27.5¢, while the January three-day settlement average was $6.195. Over in the crude oil pit, February crude oil futures gained 52¢ to close at $61.05/bbl, but finished $1.36 down for the week.

Despite Friday's slight gains, technical indicators for February natural gas lean bearish. On the downside, key support is established between $6.15 and $6.09, while next level major support is seen at the $6 area. If violated, then February gas prices would likely test the $5.92 to $5.74 area. Longer-term major support is at $5.66, $5.46 and $5.35. On the upside, key resistance is seen at $6.32, and then again at $6.50. If buyers come back into the market, then the next upside objective would be at $6.72 and $7 — followed by additional concentration up to $7.17 and $7.27. If the latter is exceeded for more than 40 minutes, then look for a test of $7.45 or higher numbers.

Because of lackluster demand in most regions of the country, cash prices fell notably last week. Spot prices at the Henry Hub tumbled well below the $6 level, averaging near $5.50 for the weekend.

Last week's storage data stunned the market with a much lower than expected withdrawal from inventories. The Energy Information Administration (EIA) reported withdrawals of 46 Bcf or 6.6 Bcf/d for the week ended Dec. 22, lowering gas in storage to 3,121 Bcf. The report was considered bearish, as the Nymex ICAP auction implied a storage withdrawal of 55 Bcf. Other analysts estimated withdrawals ranging from 62 Bcf to 68 Bcf. Last week's withdrawal was well under the 162 Bcf draw last year, and also under the five-year average withdrawal estimated at 134 Bcf. Early estimates for this week's storage report are for a withdrawal ranging from 55 Bcf to 75 Bcf. The EIA gas storage report will be released this week at 10:30 a.m. EST Friday.

Additionally, the Nymex and Comex Division trading floors will also be closed on Tuesday, Jan. 2, 2007, in observance of President Ford's death (see p6)

Friday's Commodity Futures Trading Commission's Commitment of Traders report for the week ended Dec. 26 showed noncommercials in about 52.3% long futures-only positions for the week.

Alan Lammey, Houston

Nigeria Death Toll Mounts

The death toll in last week's massive oil pipeline fire in the Nigerian city of Lagos has risen to 284 after 15 more people died in hospital. A further 25 are critically ill.

Hundreds of people were scooping fuel from a pipeline punctured by thieves when it exploded on Dec. 26 (OD Dec.27,p5). It took the emergency services hours to put out the flames and many of the bodies were burnt beyond recognition.

The accident prompted UN Secretary-General Kofi Annan to call for "a review of the country's fuel supply management, as well as a thorough regional review of risks that could lead to other environmental or technological disasters in West Africa."

Mexico . . .

(Continued from 1)

The reduction comes as production at Mexico's giant offshore Cantarell field, the biggest cash cow for Pemex, declines. Cantarell's production of the heavy Maya crude dropped to about 1.8 million barrels per day in 2006 from 2.0 million b/d in 2005 and 2.1 million b/d in 2004. Mexico's total production remained stable in 2006 averaging 3.2 million b/d.

To stabilize production in 2007 Pemex plans to invest $16 billion, with about $12.3 billion earmarked for exploration and production activities. Capital expenditures in 2006 totaled $14.1 billion, of which $11 billion was spent on exploration and production.

One area Pemex plans to explore in 2007 is the Ku Maloob Zaap oil fields, where it recently installed a new 250,000 b/d offshore production platform. Plans there are to increase production over the next four years to 800,000 b/d from a current 300,000 b/d.

Despite rising revenues that have translated into profits for the state company — an achievement considering the company's high tax rate — Pemex's bottom line remains crippled by inefficiencies.

Citing an internal company report Mexican daily *La Reforma* recently reported that Pemex spends about $368 million a year on wages for 11,450 union employees who do not work. The company is blocked by a strict union contract that prevents it from firing or relocating inactive workers. The most affected unit is exploration and production where 4,300 employees remain idle. Pemex could save about $918 million a year by reducing the workforce, the report said, citing former Pemex head Luis Ramirez Corzo.

Earlier this month Mexican President Felipe Calderon appointed Jesus Reyes Heroles, a former energy minister, as chief executive of Pemex.

Overall Mexico's 2007 budget responds to calls by a large portion of the Mexican population for greater social spending, following Calderon's razor thin victory in the July presidential election against popular left-wing candidate Andres Manuel Lopez Obrador. AS such, the budget includes items originally proposed by Lopez Obrador during his campaign, such as a $45 per month pension for 1.3 million people over 70 who live in rural areas.

Terrence Murray, New York

Exxon . . .

(Continued from 1)

plan of development," spokeswoman Susan Reeves said in an email. "Exxon Mobil, on behalf of the PTU owners, has complied with the Point Thomson lease agreements, the Point Thomson unit agreement and all Alaska statutes and regulations. Litigation related to the termination of the Point Thomson unit is likely to be protracted."

She described Rutherford's rejection of Exxon's request for reconsideration "a major setback" for an Alaska gas pipeline project since gas supply from Point Thomson is critical for the project.

In other Exxon news, the *Anchorage Daily News* is calling for the supermajor to pay up promptly on the $2.5 billion damage award set by a US appeals court on Dec. 22. An editorial in the paper's Thursday edition claimed one reason for the delay is the healthy 18% return on investment Exxon earns through operations, triple the interest rate it is required to pay on the damage award.

Many Alaskans also are miffed because the appeals court reduced the damage award by half (OD Dec.26,p7).

Barbara Shook, Houston

Late Rally Pushes Nymex Crude Over $61 at Year End

With a few minutes left for trading in 2006, the prompt February oil contract on the New York Mercantile Exchange (Nymex) seemed to settle around the $60.50 mark. But then the magic of thin holiday trading kicked in and within two minutes oil had gained more than 50¢ to close at $61.05 per barrel for a gain of 52¢ — making some books look better as this will be the closing price for the year. The prompt contract managed to top last year's closing price by 1¢.

Market talk on Friday was that the oil price rallied on fears that Iraq wanted to execute former president Saddam Hussein either later that day or shortly thereafter, which could possibly lead to heated reactions over the holy holidays in the Mideast region.

Others dismissed that this was the trigger for the rally since the death sentence was known during the week. News of Saddam's imminent execution might have helped perk up the oil price in the morning, though some squaring of books ahead of the long holiday weekend might have had to do with that as well.

For the year as a whole, the prompt light, sweet oil contract on the Nymex averaged $66.25, with a high close of $77.03 on Jul. 14, and a low of $55.81 on Nov. 17. The average is $9.54 per barrel higher than the $56.71 registered for 2005.

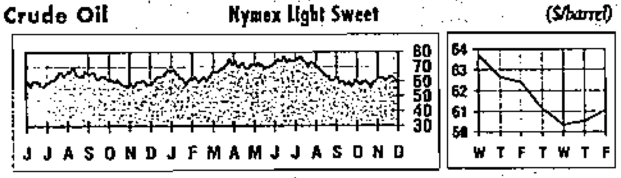
In London, on ICE Futures, Brent closed the year at $60.86 for a gain of 19¢. In 2006, the front-month Brent contract averaged $66.11, after a high of $78.30 on Aug. 7 and a low of $57.87 on Nov. 2.

(See Futures, page 4)

Daily Oil & Gas Price Review

Prices for Friday, December 29, 2006

Crude Oil — Nymex Light Sweet ($/barrel)



Light Sweet Futures — Prompt Month ($/barrel)

	Change	1st Month	5-Day Avg.	2nd Month	3rd Month
Nymex Light Sweet	+0.52	61.05	61.09	62.38	63.26
ICE Brent	+0.19	60.86	61.11	62.07	63.01

Cash/Spot	Change	Spot Price	5-Day Avg.	Month-Ago	Year-Ago
WTI (Cushing)	+0.46	60.82	60.85	62.94	60.83
WTI (Midland)	+0.57	61.35	61.24	63.16	60.86
Brent (Dated)	-0.55	58.50	60.51	65.08	59.68

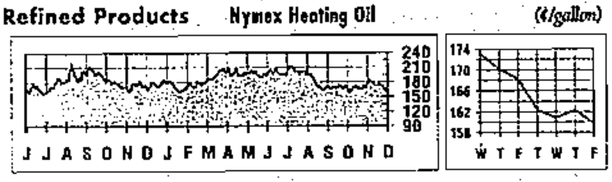
US Domestic Crudes ($/barrel)

Cash/Spot	Change	Spot Price	5-Day Avg.	Month-Ago
WTS (Midland)	+0.67	56.45	56.02	58.66
LLS (St. James)	+0.47	63.25	63.21	65.96
ANS (California)	+0.46	57.22	57.28	58.14
Kern River (SJV)	0.00	50.98	51.16	51.15
Line 63 (SJV)	+0.46	56.77	56.80	57.64

International Crudes ($/barrel)

Cash/Spot	Change	Spot Price	5-Day Avg.	Month-Ago
Opec Crude Basket[I]	0.00	56.43	58.33	57.28[G]
Nigeria Bonny Light	-0.20	61.45	61.57	67.10
Dubai	+0.15	56.61	57.21	59.80
Oman	-0.10	57.51	58.22	59.81
Russia Urals	-0.45	55.05	56.20	60.60

Refined Products — Nymex Heating Oil (¢/gallon)



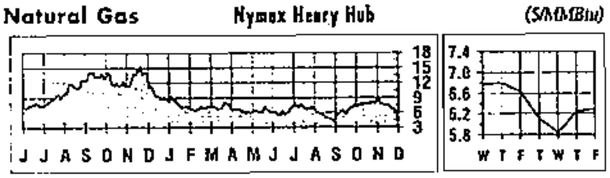
Heating Oil/Gasoline Futures — Prompt Month (¢/gallon)

Futures	Change	1st Month	5-Day Avg.	2nd Month	3rd Month
Nymex (¢/gal.)					
RBOB Gasoline	+0.41	160.21	159.83	161.63	165.98
Heating Oil	-2.52	159.79	162.70	164.82	168.57
ICE (London)					
Gasoil ($/ton)	-4.00	516.50	523.75	521.75	528.50
Gasoil (¢/gal.)	-1.27	163.97	166.27	165.63	167.78

US Product Spot Markets[H]

	Gulf Coast				New York				Los Angeles			
Gasoline (¢/gal.)	Change	Spot Price	5-Day Avg.	Month-Ago	Change	Spot Price	5-Day Avg.	Month-Ago	Change	Spot Price	5-Day Avg.	Month-Ago
Regular Gasoline	+1.70	156.65	155.49	167.35	+1.50	164.00	162.49	174.75	+2.65	175.15	171.61	173.60
Premium Gasoline	-3.05	166.65	169.89	186.10	+0.50	178.50	177.59	195.00	+2.85	194.15	190.61	191.60
Regular RBOB	+2.35	157.30	155.87	166.35	+1.50	162.00	161.29	173.50	+2.85	184.15	180.61	181.60
Mid-Distillates (¢/gal.)												
No. 2 Heating Oil	-0.24	158.80	160.41	177.30	+0.50	159.80	160.00	178.20	—	—	—	—
No. 2 Low Sulfur Diesel	-0.49	173.80	174.58	190.05	-3.00	166.80	169.20	187.70	+6.51	194.30	189.11	213.30
Jet Fuel	+1.51	173.30	172.58	191.05	+5.00	178.80	176.00	187.45	+0.01	190.80	189.41	214.80
Residual Fuel ($/bbl)												
No. 6 Oil (low sulfur)	-0.38	43.25[A]	43.83	47.25	-1.29	44.63[B]	46.29	49.88	—	—	—	—
No. 6 Oil 1% S	-0.38	40.75[C]	41.33	45.13	-0.57	37.63[D]	38.48	42.97	—	—	—	—
No. 6 Oil 3% S	0.00	38.88	39.12	40.53	-0.11	37.42	37.93	42.13	+23.50	294.50[E]	270.60	325.00

Natural Gas — Nymex Henry Hub ($/MMBtu)



Nymex Henry Hub — Prompt Month ($/million Btu)

Futures	Change	1st Month	5-Day Avg.	2nd Month
Nymex ($/MMBtu)				
Henry Hub	+0.051	6.299	6.227	6.503

Spot Gas Prices ($/MMBtu)[F]

Key Hubs/Cities	Change	Spot Price	Week-Ago	Month-Ago
New York	-0.03	6.07	6.78	8.85
Henry, Louisiana	-0.10	5.52	6.08	8.33
Chicago	-0.20	5.53	6.24	8.35
Katy, Texas	-0.20	5.22	5.98	7.95
Southern California Border	-0.19	5.78	6.44	7.96
AECO Hub (Canada)	-0.03	5.68	6.33	7.85

Produced by Oil Daily in cooperation with Reuters. All spot assessments are bid prices published by Reuters at 5:30 p.m. ET.

Notes: A — 0.7% sulfur low pour.
B — 0.3% sulfur high pour.
C — Low pour.
D — High pour.
E — Price is for 380 CST, given in $/metric ton.
F — Source: Natural Gas Week
G — 20-day avg.
H — Bid prices for latest spot deals at press time.
I — Opec basket price is for previous day.

US Spot Crude Differentials Steady In Thin End-of-Year Trading

With most traders out for the holidays, the US crude spot market saw little activity during the last week of 2006 and price differentials for most grades were mostly unchanged. Trading is also expected to get off to a slow start when players return in the New Year for another holiday-shortened week.

On Dec. 29, the differential for Light Louisiana Sweet was unchanged at around $2.50 above the price for benchmark West Texas Intermediate (WTI) delivered to Cushing, Oklahoma. WTI futures closed the year at $61.05/bbl — just 1¢ above their Dec. 30, 2005 close of $61.04/bbl. Heavy Louisiana Sweet was also steady at $1.50 above WTI, while Colombian Cusiana crude was unchanged at 85¢ above WTI. West Texas Sour was 50¢ stronger at $4.50 below WTI, while Mars was steady at minus $7.40.

The crude market has been relatively soft in December and many analysts think that trend might continue throughout January because fundamentals are weak, with demand still uncertain and inventories still ample. Moreover, the products market is seen pulling crude lower because of mild winter weather and weak crack spreads. US heating demand has been about 20% lower than normal over the past 10 days and above-normal temperatures are forecast for January.

Nevertheless, some analysts think the market will make a comeback soon, as refiners try to make up for the recent stock drawdown. US crude stocks have fallen for 10 successive weeks to 321 million bbl for the week of Dec. 22, in large part due to shipping delays in the US Gulf, but also due to the fact that refiners have been selling their stocks to limit end-of-year inventory taxes.

At the same time, Opec has shown a willingness to defend a price floor at around $55 per barrel and appears to be comfortable with a price of around $60/bbl. Opec has recently agreed to a two-stage production cut totaling 1.7 million b/d; the first cut of 1.2 million b/d was effective Nov. 1, with the second of 500,000 b/d effective Feb. 1. So far, only a small portion of the first cut has been implemented, suggesting that if the group complies with its own production plans, the market could get tight in the New Year, especially if US refiners boost crude runs in the event of a cold blast in February.

Geopolitical tensions have taken a back seat for the time being. The UN Security Council voted on Dec. 23 to impose non-petroleum trade sanctions on Iran for failure to comply with demands to stop uranium enrichment. Iran remains defiant, saying it will now accelerate its nuclear program, and has also decided to limit cooperation with the UN's nuclear watchdog. While the market ignored the Iranian standoff last week, it might not in the months ahead because Iran is one of the world's largest oil suppliers and controls a key shipping route in the Mideast Gulf.

Iran has not only threatened to use oil as a weapon in its standoff with the West, the entire Mideast region is politically unstable right now. Violence continues in Iraq and the conflicts that have dominated the Mideast for years now threaten to spread to the Horn of Africa, where this week Ethiopian forces have been battling Islamists in Somalia, not very far from oil-producing southern Sudan.

In Nigeria, the political situation remains explosive ahead of a presidential election in April, which potentially could impact oil production. Already, about 20%of Nigerian output is shut in due to militant attacks. "These are huge geopolitical risks that may prompt prices to spike, which is why the crude market remains in consistent contango," said analyst Bill O'Grady at AG Edwards.

George Orwel, New York

Baker Hughes Drilling Report . . .

US Rig Count Falls by 13

The number of drilling rigs searching for oil and gas in the US fell by 13 to 1,710 last week, Baker Hughes said Friday. During the same week last year, there were 1,471 rigs at work.

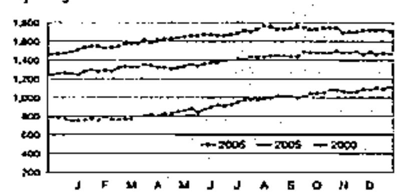
The number of rigs searching for oil in the US fell by one to 278. The number of rigs searching for natural gas fell by 13 to 1,425. The number of miscellaneous rigs rose by one to seven.

The number of rigs working in Texas rose by two to 784, while the number of rigs at work in Louisiana fell by three to 189. The number of rigs at work in Oklahoma fell by six to 174.

Week Ended Dec. 29

Rotary Rigs

	Current Week	Previous Week	Year Ago
Total US	1,710	1,723	1,471
Land	1,604	1,617	1,372
Inland Waters	22	22	19
Offshore	84	84	80
Gulf of Mexico	81	81	75
Total Canada	429	450	364
US Rigs Exploring for:			
Oil	278	279	235
Gas	1,425	1,438	1,234
Unspecified	7	6	2
US Rigs by State:			
California	34	33	32
Louisiana	189	192	165
New Mexico	91	88	95
Oklahoma	174	180	154
Texas	784	782	672
Wyoming	85	84	89



Source: Baker Hughes

Futures . . .

(Continued from 3)

The premium of the Nymex contract — with West Texas Intermediate (WTI) as the key deliverable grade — over the prompt Brent future shrank to just 14¢ in 2006, down from $1.46 in 2005, signaling what some traders called a structural change in the price relationship between the two grades.

Brent's price is seeing upward pressure as less is exported and more is needed to feed the European region, while in the US the opposite is happening with more Canadian crudes flowing into the Midwest, putting downward price pressure on WTI.

US crude import data support the theory. The UK will be sending some 140,000 b/d to the US this year, 100,000 b/d less than in 2005, while Norwegian crude making the trans-Atlantic crossing will be around 100,000 b/d this year, some 30,000 b/d less.

From the north, more crude is making its way south into the US. Canada is expected to deliver some 150,000 b/d more this year than last, for a total 1.75 million b/d in 2006.

To alleviate the pressure on the Midwest refining region — and on Cushing, Oklahoma, the delivery point for the Nymex prompt contract — Canadian exporters are controlling a growing number of pipelines in the US, which allows them to now even supply the Gulf Coast with their crudes.

The year of 2006 also will enter the history books as one of the warmest on record. And a lack of winter is generally considered to be negative for oil demand. With two-thirds of all oil now consumed as transportation fuel, the negative impact on demand — lower demand for heating oil and propane — might be less than in the past, though.

John van Schaik, New York

Oil Impact of More Protection for Polar Bears, Whales Uncertain

The oil and gas industry is closely watching a federal proposal to grant polar bears and right whales greater government protection that could impact development in the Arctic and parts of Alaska's Pacific coast.

The Bush administration last week proposed listing polar bears as threatened under the Endangered Species Act. A threatened listing is one step lower than endangered, meaning the species is likely to face extinction in the future.

The Interior Department cites thinning sea ice caused by global warming and the resulting loss of habitat as the main threat to polar bears.

"Polar bears are one of nature's ultimate survivors, able to live and thrive in one of the world's harshest environments," said Interior Secretary Dirk Kempthorne. "But we are concerned the polar bears' habitat may literally be melting."

The administration also bowed to pressure from conservationists to give the North Pacific right whale its own spot on the endangered list. Right whales are already listed as endangered, but a separate listing for the Pacific population is considered important to draw attention to its plight. Both actions could complicate oil and gas development, although neither the industry or the government are yet certain what possible impacts the new designations might have in the future.

A listing as threatened or endangered would require federal agencies responsible for approving projects to determine that neither species nor their habitat would be affected. It would also require the development of a recovery plan, which could include provisions to protect critical habitat.

Marilyn Crockett, deputy director of the Alaska Oil and Gas Association, said it's unclear how the new designations would affect exploration and development since both species are already federally protected.

Polar bears are protected under the Marine Mammal Protection Act and international treaties, the most recent one with Russia approved by Congress in December.

"There's considerable levels of restrictions and monitoring requirements already in place, so what additional measures might be passed... we just don't know," Crockett said.

Scientific observations have revealed a decline in late summer Arctic sea ice to the extent of 7.7% per decade and 9.8% per decade in the perennial sea ice area since 1978.

There are an estimated 20,000 to 25,000 polar bears in Russia, Greenland, Norway, Canada and Alaska. About a quarter of that population lives along Alaska's Chukchi and Beaufort seas.

The western Hudson Bay population of polar bears in Canada has suffered a 22% drop in its population, from 1,194 to 935, between 1987 and 2004, according to Fish and Wildlife. The less studied Alaska populations have not experienced a statistically significant decline, but federal biologists are concerned they could in the future.

The government analyzed the impact of both onshore and offshore oil and gas development on polar bears and determined they do not pose a threat to polar bears. However, there are concerns within the industry that future efforts to protect critical habitat could limit development.

"The Marine Mammal Act already has regulations in place that restrict anyone from conducting any activity that would have an impact on polar bear," Crockett said. "It's hard to see what further could be done."

The designation for the right whale could affect offshore exploration in southwest Alaska's Bristol Bay. President Bush is expected to lift a moratorium any day on offshore oil and gas drilling in the area, also known as the North Aleutian Basin. Right whales have also been spotted in the Bering Sea. Fewer than 100 right whales are believed to exist off the Alaska coast.

Petroleum companies already accommodate endangered bowhead whales in the Beaufort Sea, so they shouldn't have trouble dealing with the right whale, Crockett said. "It will provide a challenge for the oil and gas industry, but we will adjust."

Robert Dillon, Washington

US Regulators May Ease Up on Tough Post-Enron Rules

US regulators' plans to make accounting rules for listed firms less burdensome were no doubt a welcome Christmas present for executives who argue that the Sarbanes-Oxley (Sox) financial compliance regulations are too costly, too onerous and — probably most important — too time-consuming.

Passed in 2002 following the spectacular collapse of Enron, telecommunications giant WorldCom and Tyco International in a welter of corporate and accounting scandals, the Sox legislation was designed to restore public confidence in accounting and reporting practices by improving corporate governance, compliance and financial reporting. But critics say it went too far, and blame it for prompting some US firms to go private and stopping foreign companies listing in the US.

Perhaps the most significant of the legislation's 6,000 pages are Section 404, the requirement that listed firms evaluate and disclose the effectiveness of the internal controls they have in place to ensure results are reported correctly. It requires a company's auditor to confirm the effectiveness of the controls, and essentially holds executives responsible if the books are wrong.

Since the law went into effect, firms have been scrutinizing virtually every internal control, even those that aren't relevant to their own financials. "Just because Company A might need 3,000 controls doesn't mean that Company B needs 3,000 controls, too," says Lee Dittmar, co-leader of Sox practices for global accounting and consulting giant Deloitte. A retailer, for example, "has to worry about managing petty cash. You don't have to worry about managing petty cash if you're in the oil and gas business," he says.

As numerous details are involved in evaluating how transactions appear on a company's financial statements, compliance is not only complex but also extremely costly: US-based information technology firm AMR Research reckons companies have on average spent $1 million in compliance expenses for each $1 billion in annual revenue.

The oil industry has extra problems. "Companies that grew by mergers and acquisitions had some added challenges if they hadn't rationalized and standardized their processes for financial reporting," Dittmar says. "They had a lot more complexities to deal with."

A study focusing on Sox compliance in the energy business by accounting firm PricewaterhouseCoopers points out that the industry is particularly complex, with any internal control deficiencies impacting the accuracy of financial reporting. "Reserves reporting, decommissioning, customer account collection difficulties, energy trading, taxation and carbon allowances are just a few of the areas posing specific challenges," it notes.

Despite the complaints about costs and time, the consensus is that Sox has achieved its primary goal of increasing investor confidence. Companies could now get a break. In December, the US Securities and Exchange Commission (SEC) proposed giving executives the leeway to evaluate only those internal controls that could affect their financials, cutting the amount they need to spend evaluating controls. The proposals are in line with suggestions from an independent committee on capital markets regulation, made up of 22 US corporate and financial leaders. This week, the Public Company Accounting Oversight Board — set up as part of the Sox bill — proposed a standard designed to let auditors to do less work by encouraging them to decide which internal controls to review.

The proposals now have to undergo several months of public comment and possible revisions. Changes won't be earth-shattering, as the SEC will work within the confines of the current Sox legislation, rather than send the bill back to Congress. There had been concern that if it went back for debate to the Democrat-controlled Congress taking over in January, companies could have found their lives getting harder, not easier.

Jeff Gosmano, Houston

NEWS ALERT

From staff and wire reports

Top Briefs

Nymex Closed to Honor Ford

The trading floor of the New York Mercantile Exchange (Nymex), the world's top energy bourse, will be closed on Tuesday, Jan. 2, 2007 in observance of the national day of mourning for former President Gerald Ford, Nymex said Friday.

The exchange said that electronic trading of all Nymex and Comex division products through CME Globex will be available as a risk management service from 6:00 p.m. EST, Monday, Jan. 1, 2007 until 5:15 p.m. EST, Tuesday, Jan. 2, 2007. Nymex ClearPort will also be available for trading and clearing of energy products.

The major US stock exchanges will also be closed on Tuesday, Jan. 2 to mark the death of Ford, leaving stock trading suspended for an unusually long four consecutive days.

Petrobras Reports Oil Finds

Brazil's state-run oil firm Petrobras on Friday declared 19 separate oil fields within Brazil as commercially viable.

In a written statement, Petrobras said the 19 fields contain estimated oil reserves totaling about 2.1 billion bbl of oil.

The statement said, "Some of the fields have been transformed into new crude oil or natural gas sites, while others have been

EIA Gas Storage Report

Gas in Storage Falls 46 Bcf

Stocks of working natural gas in US storage facilities fell 46 Bcf for the week ending Dec. 22, leaving storage levels at 3,121 Bcf, according to the Energy Information Administration (EIA).

Gas stocks are 458 Bcf higher than last year at this time.

The EIA reported a decrease of 28 Bcf in the eastern consuming region, a decrease of 24 Bcf in the western consuming region and an increase of 6 Bcf in the producing region.

Working Gas in Storage

(in Bcf for week ended Dec. 22)

Region	12/22	12/15	2005
E. Consuming	1,773	1,801	1,554
W. Consuming	401	425	366
Producing	947	941	743
Total	**3,121**	**3,167**	**2,663**

Source: Energy Information Administration

The statement said figures for estimated reserves in the 19 fields were preliminary and still depend on detailed technical studies.

Petrobras said 16 of the fields were located offshore and three fields were located onshore. The three small onshore fields are located in Espirito Santo state, just north of Rio de Janeiro.

The 16 offshore fields are located at three Atlantic Ocean sites. They are the Santos Basin off the coast of Sao Paulo state, the Campos Basin off the coast of Rio de Janeiro and the Espirito Santo Basin off the coast of Espirito Santo state.

Earlier last week Royal Dutch Shell declared two oil discoveries in the Santos Basin commercial, lifting the modest success rate of foreign oil companies in Brazil's upstream sector (OD Dec.29,p1).

Corporate News

Apache Declares Force Majuere

US oil and gas producer Apache and its partners in the Harriet gas field off northwest Australia have declared force majeure on a gas reserves agreement with India's Burrup Fertilisers Pte. Ltd.

Apache, Australia's Tap Oil and Kuwait Foreign Petroleum Exploration Co. (Kufpec) have told Burrup they are suspending a requirement in the agreement to demonstrate reserves sufficient to meet a 20-year supply.

Perth-based Tap Oil said the force majeure was a result of well failures at the Harriet gas fields and that the venture partners would continue to seek further exploration and development programs for gas in its permit areas.

The venture "is currently supplying the daily contract quantity of gas in accordance with the terms of the agreement and it anticipates to be able to deliver gas for some years to come," Tap Oil said in a statement on Thursday.

The venture partners were also planning talks with Burrup on a coordinated resolution to the issue, Tap Oil said.

Under the agreement, the Harriet joint venture was contracted to supply more than 66 terajoules of gas a day to the Burrup fertiliser plant, owned by India's Oswal Group.

The A$630 million ($498 million) plant, which started production in April this year, has a production capacity of more than 760,000 tonnes of ammonia annually and is the largest new development of its kind, according to Burrup's Web site.

Stock Market Scorecard

Integrated Majors	Close 12/29	1-Day Chg.	% Chg.	% Chg. 10-Day	% Chg. 52-Wk	% Chg. YTD
Shell-B	71.15	+0.25	+0.35%	-1.10%	+11.80%	+10.26%
Shell-A	70.79	+0.24	+0.34	-0.60	+16.05	+15.12
Total	71.92	+0.01	+0.01	-1.32	+14.29	+13.80
BG	68.44	-0.01	-0.01	+0.26	+39.67	+37.63
Petro-Canada	41.04	-0.02	-0.05	-8.00	+4.59	+2.37
BP	67.10	-0.10	-0.15	-1.41	+5.95	+4.48
Eni	67.28	-0.27	-0.40	+0.42	+21.18	+20.61
Statoil	26.32	-0.15	-0.57	-5.90	+18.13	+14.63
Marathon	92.50	-0.63	-0.68	-5.20	+54.27	+51.71
Norsk Hydro	30.67	-0.23	-0.74	+21.80	+51.70	+48.62
Repsol YPF	34.50	-0.26	-0.75	-6.05	+16.87	+17.31
Exxon Mobil	76.63	-0.70	-0.91	-2.67	+37.76	+36.43
ConocoPhillips	71.95	-0.72	-0.99	-1.53	+25.13	+23.67
Chevron	73.53	-0.75	-1.01	-3.21	+31.56	+29.52
Hess	49.57	-1.22	-2.40	-5.60	+21.15	+17.26
IPF Index	391.56	-2.15	-0.55	-0.72	+24.68	+23.40
Large Producers						
Nexen	55.00	+0.39	+0.71	+1.64	+17.17	+15.47
Canadian Natural	53.23	+0.21	+0.40	-0.58	+10.67	+7.28
Apache	66.51	-0.22	-0.33	-4.78	-1.53	-2.93
Devon Energy	67.08	-0.32	-0.47	-7.17	+8.30	+7.26
Murphy Oil	50.85	-0.27	-0.53	-6.11	-4.51	-5.82
Pioneer	39.69	-0.22	-0.55	-8.10	-21.56	-22.59
Talisman	16.99	-0.13	-0.76	-3.90	+0.53	-3.63
Occidental	48.83	-0.39	-0.79	-5.95	+22.63	+22.26
Anadarko	43.52	-0.42	-0.96	-5.94	-6.31	-8.14
Chesapeake	29.05	-0.32	-1.09	-7.63	-5.31	-8.45
EOG Resources	62.45	-1.23	-1.93	-10.56	-14.04	-14.88
EnCana	45.95	-0.96	-2.05	-12.23	+4.43	+1.75
XTO Energy	47.05	-1.12	-2.33	-6.83	+7.32	+7.08
Refiners						
Sunoco	62.36	-0.19	-0.30	-8.10	-19.72	-20.44
Tesoro	65.77	-0.43	-0.65	-7.89	+9.74	+6.86
Valero	51.16	-0.45	-0.87	-6.90	+0.51	-0.85
Frontier Oil	28.74	-0.29	-1.00	-10.30	+52.59	+53.16
Alon	26.31	-0.31	-1.16	-10.81	+31.55	+33.89
Holly	51.40	-0.88	-1.68	-5.20	+77.67	+74.62
Integrated Energy						
Duke Energy	33.21	+0.19	+0.58	-1.28	+19.93	+20.98
El Paso	15.28	0.00	0.00	-0.52	+24.63	+25.66
TransCanada	34.95	-0.06	-0.17	+0.87	+13.59	+11.02
Kinder Morgan	105.75	-0.20	-0.19	+0.24	+15.88	+15.01
Sempra	56.04	-0.29	-0.51	-1.30	+24.78	+24.98
Enbridge	34.40	-0.24	-0.69	-1.57	+11.08	+10.01
Williams	26.12	-0.37	-1.40	-5.57	+12.83	+12.73
Service Companies						
Halliburton	31.05	-0.21	-0.67	-6.53	+0.88	+0.23
Schlumberger	63.16	-0.47	-0.74	-8.09	+30.09	+30.03
GlobalSantaFe	58.78	-0.54	-0.91	-6.61	+22.56	+22.08
Transocean	80.89	-0.82	-1.00	-3.36	+17.64	+16.07
Baker Hughes	74.66	-0.79	-1.05	-2.96	+23.14	+22.84
Patterson-UTI	23.23	-0.34	-1.44	-10.93	-29.31	-29.50
Nabors	29.78	-0.45	-1.49	-8.82	-20.96	-21.37
Ensco	50.06	-0.89	-1.75	-8.77	+12.65	+12.87

Note: Ranked by daily percentage change.

The Harriet venture, 69%-owned by Apache, produces oil, gas and condensates from fields located about 75 miles west of the Australian city of Dampier.

Environment

Bush to Rule on Bristol Bay

President Bush is expected to lift the ban on offshore oil and gas drilling in Alaska's Bristol Bay region within days.

The White House could not be reached for comment Friday, but several Alaska officials said they'd been told a decision on re-

moving the presidential moratorium first put in place in 1990 would be forthcoming shortly.

White House officials have previously confirmed that the president is considering lifting the ban.

The Minerals Management Service has included a 8,700-square-mile area of Bristol Bay, also known as the North Aleutian Basin, in its proposed national plan for offshore oil and gas leasing from 2007 through 2012, though the final plan is not expected to be released until April.

Environmental groups have protested attempts to allow drilling in Bristol Bay, which is home to the world's largest sockeye salmon run. Royal Dutch Shell and 10 other companies have previously expressed interest in the region, which federal geologist believe holds abundant natural gas reserves.

International

Russia, Belarus to Meet Again

Belarus delegation headed to Moscow on Friday in a last-minute attempt to settle a gas pricing row with Russia that could threaten supplies to Europe, but Russia's gas monopoly was not optimistic of a breakthrough.

The European Commission and Germany have urged Russia and ex-Soviet neighbor Belarus to settle their differences quickly to avoid any chance of disrupting supplies to European consumers as happened last January in a similar row with Ukraine.

"I cannot say we are feeling more optimistic," said Sergei Kupriyanov, chief spokesman for state-owned gas monopoly Gazprom, the main Russian protagonist in the dispute. Gazprom is seeking a share of Belarus' pipelines and higher gas prices from 2007.

"The comments we are hearing from Minsk such as 'we won't have gas shortages simply because we have transit shipments' give no grounds for optimism," he told Ekho Moskvy radio.

Canadian Gas Storage

The amount of natural gas in Canadian storage facilities fell 1.9 Bcf to 419.4 Bcf for the week ending Dec. 22. Storage caverns were 87.7% full, compared to 88.1% the previous week and 75.7% a year ago, according to Enerdata.

(Bcf)

	12/22	%Full	12/15	%Full	2005
East	229.5	91.4%	230.6	91.9%	79.2
West	189.9	83.5	190.7	83.9	71.9
Total	**419.4**	**87.7**	**421.3**	**88.1**	**75.7**

Source: Canadian Enerdata

Reuters before the delegation left Minsk: "The aim is to sign a contract. We hope to do it before the New Year."

Russia, with huge energy reserves, supplies a quarter of Europe's gas to more than 20 countries with about 80% of this going through Ukraine and the rest via Belarus.

Latin America

Ecuador Lowers Oriente Price

The average price of Petroecuador's Oriente crude oil for export was $48.03/bbl on Dec. 26, down 3% from $49.48/bbl on Dec. 19, Petroecuador said Friday.

The price was 12% higher than an average of $42.76/bbl in December 2005, Petroecuador said.

Petroecuador typically exports about 156,000 bbl of Oriente crude daily, principally to the US.

Additionally, now Petroecuador also exports around 70,000 b/d of Napo crude from former Occidental fields, that where seized earlier this year.

The government seized Block 15, Eden-Yuturi and the Limoncocha fields in May 15, claiming Occidental had broken the terms of its operating contract (OD May17,p1).

The average price of Napo crude oil for export was $42.27/bbl Dec. 26, down 3% from $43.73/bbl on Dec. 19, according Petroecuador.

Crude oil is Ecuador's main export, which netted $5.397 billion in 2005. The oil sector represents around 15% of the Andean country's gross domestic product and a third of government revenue.

In its 2006 budget, the government forecast an average price of $35/bbl.

Statoil Completes Deltana Well

Statoil said Friday it has completed the drilling of Cocuina-2X, as part of a three-well exploration campaign in Block 4 of Plataforma Deltana, off eastern Venezuela.

Statoil said the well, located 149 miles from the Orinoco Delta, was drilled to a total depth of 11,175 feet. It said a total of three intervals were tested in which dry gas was confirmed. The true potential of Block 4 cannot be confirmed until the whole exploration program has been completed, it said.

"Statoil sees the completion of Cocuina as the first achievement on this exploratory campaign" says Thore E Kristiansen, president of Statoil Venezuela. "The well was drilled with an excellent safety record and no serious incidents."

Statoil said the drilling rig is being moved this week to the next well location, Ballena-1X, to drill in 1,150 feet of water. No well has ever been drilled in deeper water in Venezuela to date, it said.

The company said plataforma Deltana Block 4 is a license awarded to Statoil by the Venezuelan government in 2003. Statoil is the operator of the license with a 51% share and Total holds 49%, it said. State PDV has the option to participate up to 35% once a commercial discovery has been declared, it said.

Legislation/Regulation

Bush Signs Pipe Safety Bill

US President George W. Bush signed into law Friday legislation aimed at preventing the kind of runaway corrosion that plagued low pressure pipelines at the huge Prudhoe Bay oil field in Alaska, which had been exempt from federal oversight.

The Pipeline Inspection, Protection, Enforcement and Safety Act of 2006 extends the US Department of Transportation's oversight to include oil and gas pipelines operating at low pressures.

Previous legislation had only required federal oversight of high pressure pipelines.

The move to increase federal supervision

OIL DAILY

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Published By: Energy Intelligence

Raja W. Sidawi, *Chairman*
Thomas E. Wallin, *President*
Paul Merolli, *Editor*, Oil Daily
David Pike, *Editor, International Edition*

of oil pipelines came after severe corrosion inside low-pressure oil transit pipelines operated by oil major BP at Prudhoe Bay led to a massive oil spill in March and the partial shutdown of the giant oil field in August.

US pipeline regulators have said BP's corrosion management practices on the low pressure lines at the 400,000 b/d field failed to meet minimum industry standards.

BP has since vowed to replace all the low stress lines at the field as well as implement federally required corrosion monitoring practices.

The bill also orders the Transportation Department to increase the number of pipeline safety inspectors from 100 in 2007 to 135 by 2010.

Oil Field Service

Cargo Ship Hits Todco Rig

Houston-based Todco on Friday was still trying to determine the extent of damages to one of its rigs that was hit by a cargo ship off the coast of Veracruz, Mexico. Todco said the rig, THE 205, had completed a three-year drilling contract with Pemex and was being readied for its trip back to the US Gulf of Mexico.

Todco said the rig is insured for $33 million with a $4 million deductible for rig damage and the company is self-insured for 30% of all losses above the deductible. Todco's chief financial officer on Friday said he does not currently expect costs from the damaged rig to exceed what would be recoverable through its insurance.

"Based on what I know, I don't think it'll be a total loss that would get to that $33 million; but we have to wait until we get all of our assessments done," Todco CFO Dale Wilhelm said.

He said the company has started legal actions to attempt to recover the damages from the cargo vessel owner.

Separetly, Todco said it has signed a two-year, $82 million contract with Pemex for it's THE 206 drilling rig. The contract will begin in June 2007 after the company's current agreement with Mexico's national oil company ends.

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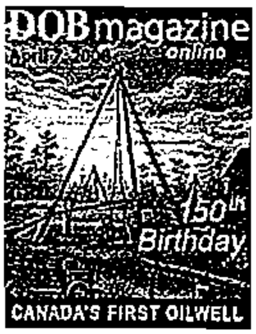

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Today's Highlights

April 9, 2008 News Synopsis Reports RSS

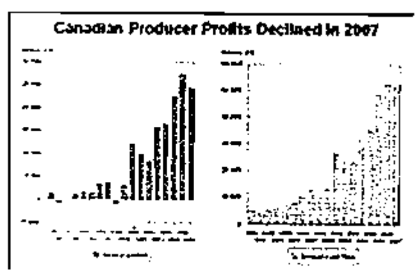
- Mixed Year For Producers, Bad Year For Service & Supply Firms
- Gas & Oil Prices To Stay Firm
- ConocoPhillips, BP To Co-operate On Alaska Pipeline
- Baytex Energy Trust To Acquire Burmis In All-Stock Deal
- India's ONGC To Spend $450 Million In Venezuela Oilfield
- Devon Says Looking For New Shale Plays
- North Texas Economy Lifted By Barnett Shale Gas
- Technip Awarded Husky Contract For North Amethyst Development
- Canaccord Bullish On Quebec's Utica Shale
- Think Alcohol And Drug Testing Is Out Of The Question? THINK AGAIN
- Grant Announced For Oilsands Tailings Pond Reclamation
- Penta Completions Offers Sucker Rod Pumping Courses
- Harvest Announces $250 Million Financing
- Arrow Credit Facility Expanded
- Flagship Energy Suffers Large Net Loss
- DuPont Schedules Seminars On Preventing Injuries
- Milagro Posts Year-End Results As It Awaits Acquisition

Oilpatch Marketplace

Today's Lead Story

Mixed Year For Producers, Bad Year For Service & Supply Firms

Much higher oil prices more than offset weaker natural gas prices in the fourth quarter of 2007 as producer profits climbed from a year earlier but it was still a difficult three months for many juniors who produce mainly gas, some of which had to book goodwill losses on previous acquisitions due to depressed stock prices.



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Oilpatch History

Weather

Reid Schedules Hydrodynamics Course April 28 - May 2

Cool Weather, Tight Supply Lift Canadian Spot Gas

PanTerra Files Resource Estimate For Sask. Properties

Canadian Natural Lands Available For Farmout

Greenland Oil Not Likely Before 2022

FairWest Doubles Production, Regrets Strike Acquisition

New Directive Announced For Emergency Response Requirements

Dejour Flows First Natural Gas From Peace River Arch

Non-Core Asset Sale

Federal Government To Set Aside Additional Northwest Territories Land

Introduction To Canadian Crude Oil Crude Oil Marketing Seminar April 21-22

Selected Oil And Gas Prices

Daily Oil Bulletin Reports

Today's Reports

April 9, 2008

New Locations Announced To The Daily Oil Bulletin

Well Activity Report

Weekly Drilling Reports

Drilling progress reported weekly to the Daily Oil Bulletin provides information on active wells in PDF format for easy reading, printing and downloading.

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For Daily Oil Bulletin online subscriber s, an organized archive of frequently used daily, weekly, monthly and quarterly reports.

Land Sale Reports

Land Sale Postings

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Daily Well Licences

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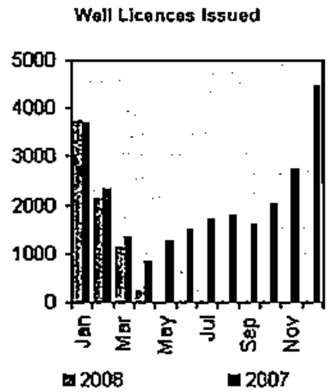
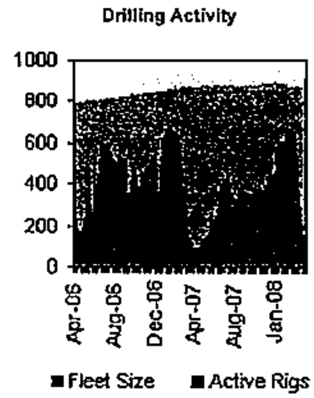
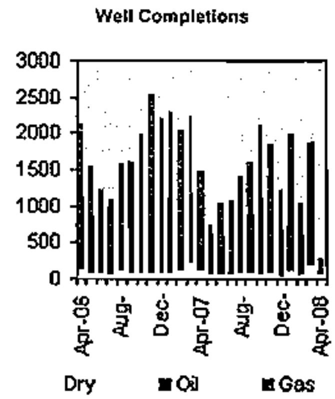
Drilling Summary

Selected Oil And Gas Prices

Close Last Trade Day	
NYMEX-WTI: May, 2008	$108.50 USD/BBL
NYMEX-WTI: June, 2008	$107.86 USD/BBL
NYMEX-WTI: July, 2008	$107.14 USD/BBL
NYMEX-WTI: August, 2008	$106.44 USD/BBL
NYMEX-WTI Year Ago Current Month Contract	$64.28 USD/BBL
Canadian Par Average (40 API)	$113.66 CAD/BBL
EnCana/Lloydminster	$92.01 CAD/BBL
EnCana/Western Canadian Select	$92.33 CAD/BBL
Flint Hills/Lloyd Blend	$92.33 CAD/BBL
Flint Hills/Western Canadian Select	$92.64 CAD/BBL
Imperial Bow River (25 API)	$92.80 CAD/BBL
North Sea Brent Blend	$106.34 USD/BBL
Shell Condensate	$110.76 CAD/BBL
West Texas Intermediate Cash	$108.50 USD/BBL
OPEC Basket Price	$101.89 USD/BBL
NYMEX Natural Gas: May, 2008	$9.697 USD/MMBTU
NYMEX Natural Gas: June, 2008	$9.780 USD/MMBTU
NYMEX Natural Gas: July, 2008	$9.884 USD/MMBTU
NYMEX Natural Gas: August, 2008	$9.944 USD/MMBTU
AECO/NGX Spot Price - Settlement	$8.410 CAD/GJ
AECO/NGX Spot Price - Same Day Volume	1,728.2 TJ
AECO/NGX Near-Month: May, 2008	$8.358 CAD/GJ
NYMEX Today @ 10:00 AM MST	
WTI May, 2008 Contract	$111.27 USD/BBL
US Exchange Rate	$1.015







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Living in the carbon world

Thinking about the energy balance,peak oil & sustainable farming

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Will we all be farmers soon?

The recent surge in the planting of corn and other food commodities for use in the production of bio fuels has caused the price of corn and other commodities to rise

Cleaning up the coal act

Apr. 9th, 2008 by Al

It seems like the coal industry is having another fallacy about the reserves to supplement the fossil demand in our world.Is the 200 year reserve supply figures too optimistic in US?From Richard heinberg report.US coal production has passed its peak since 1998!

Down in China, the coal reserves reports has not been published for more than a decade. And as we speak , world reserve of coal estimate has been down by 60%!Meanwhile coal consumption of the world

has not been stopped partly due to higher oil prices, this is not a joke considering coal provide one quarter of the world energy consumption.

Global Coal Peak

Global coal production will peak around 2020 according to the experts ,after oil and gas.China being the largest producer will be peaking around next 5 to 10 years followed by USA and we're not talking about the best grade coal either.

Total global coal reserves sits at 900plus billions ton.A little more than half is of high quality energy grade whereas the rest is of lower quality.We're cleaning up the coal for a higher air quality in a self centred manner whether we like it or not

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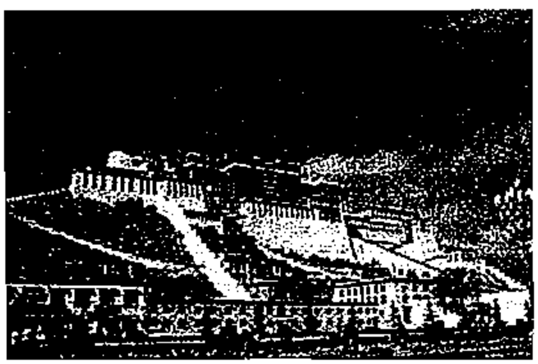
Freeing Tibet or oil?

Apr. 7th, 2008 by Al



Last month the media highlighted the unrest in tibet which many are injured during a clash between the natives and Han chinese.Over 600 were hurt and 18 killed during the unrest.This movement however stain the progress of the Olympics in Beijing given the negative publicity.

The Dalai Lamai refuted claims of any involvement in the unrest citing resignation if unrest continues .Freeing Tibet has been a thorny issue for the PRC during the last decades though the tibetans themselves still live day to day given the buddhist fataslistic outlook in life.

Tibet is more of a strategic area for the PRC government , it also holds promise of 100 million of tonnes of oil which could help in the resurgency of her economy.In a way Tibet needs PRC to prop up her economy too in many ways other than tourism.

BP and Royal shell took stakes in the PRC oil companies to explore the tibetan region much to the dismay of the environmentalists.Projects worth 3billion USD are being built from the city of

Qinghai,Golmud to lhasa.The ambitous project to link tibet with the outside world and oil extraction will be the controvesy for many years in and out of the PRC.

To free tibet is to on the nerves not only for the tibetans but the countries involved in the energy supply of the dragon.

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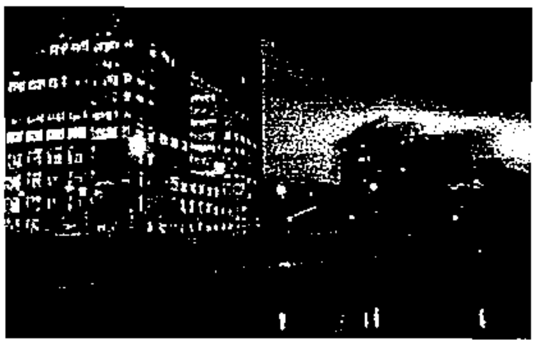
Urban thoughts

Apr. 2nd, 2008 by Al



"The modern city is ugly not because it is a city but because it is not enough of a city, because it is a jungle, because it is confused and anarchic, and surging with selfish and materialistic energies."

GK chesterton

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Overplaying the green movement!

Mar. 31st, 2008 by Al

Coming to the end of march 2008, I've got to say that our world is losing her common sense not only in dealing with our energy problems but also safeguarding the environment.Man should be good custodians to the environment and animals on the planet but sometimes people can just go too far.

It has become a cult of the masses coming from the prophets of ecological doom spearheaded by many interest groups whose agendas may be less upfront than we think.Reduction of carbon footprint has come to the point of being ludicrous, the world can never get rid of all the carbon footprints , there's even a woman who aborted her baby to support the movement of carbon reduction.

In short, there must be scientific moderated objective truth and sincere efforts to help the environment,not media propagandas trying to herd the public into a wave of hysteria that's based on unsound principles. Plants and animals are important to earth but it must not be done on the expense of human lives.

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Reflections over Easter week

Mar. 26th, 2008 by Al

It seems that the petro led modern world have move into the churches too, not only it provides air conditioned parishes but also the way people behaved in it as I witnessed during the Easter week here in my local church.It seems materialism in guise of modernism drives the believers in all directions with jammed car park to scantilly dressed women from my Church, how long can this madness last?Can't one find any peace even in Churches nowaday?

Biofuel seems to be a step in relieving the dependence on fossil fuel found in many middle eastern states that's suffering from instabilty in their region.Also it helps to combat global warming from the rampant

use of fossil energy from the world during past decades.But are the assumptions correct?

The thought comes from that biofuel arises from plant based rather than petro based so they are more environmentally friendly. However on a closer look, soybeans and corns used to produce these fuels are contributors to soil erosion and water pollution needing large amounts of pestcides and fertilizer to grow and harvest.

It also affect the global food production by making it less affordable to the poor driving the masses of poor to starvation if the reduction takes place in favour of biofuel propping the food prices up worldwide.And after all, the efficiency of biofuel can never replace fossil fuel as survey shows that it will take the entire corn crop of America to replace 12% of the current petrol consumption.

Till we figure out how to deal with the food and environmental hazards caused by biofuel ,it will seem to remain as a cottage industry not rivalling her older crude oil cousin.

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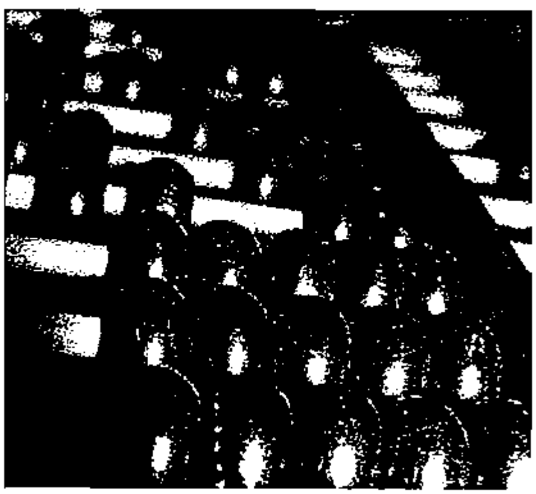
Triumph of Quantity!

Mar. 20th, 2008 by Al



Statistics are the triumph of the quantitative method, and the quantitative method is the victory of sterility and death.
Hilaire Belloc

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Recovery period!

Mar. 19th, 2008 by Al

Hi guys,

Last few days with my wound stiched, I did not post any articles but after having it removed today with positive feedback from my doc that it's not malignant, I'll be back tomorrow ...life is filled with unforseen circumstances in our carbon world

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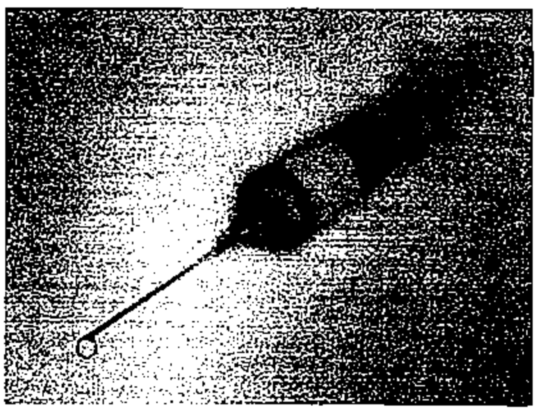
Anesthesia afterthoughts...

Mar. 13th, 2008 by Al



After being back from the skin centre for the minor op to remove my skin tumour below my nose,I realised the importance of crude oil to our medical profession.The pain and anguish the patient need to go through if not for the mass production of the **anesthesia** injected upon the patients.

The unholy alliance between our healthcare industry and crude oil industry is not to be underestimated.It's more than transportation of drugs and medical equipment worldwide but also the making of the above which could relieve the pain and sufferings and save lives.

Why is it unholy some of you may ask? Because this render many doctors helpless in situations where drugs and equipments are not available to help the afflicted.The whole medical profession though no fault of the modern physicians offers a narrowing of treatments not based on oil made products.The catastrophe of mankind if the structure falls will be unthinkable...

As I shrruddered about the pain of the injection of anesthesia, lord knows what our forefathers went through without anesthesia.It's really a troubling thought as I look at the stiched wound down my nose and wondered if it's a blessing living in the modern era where medicine is closely tied up with the petrochemical industry.

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Skin blues..

Mar. 11th, 2008 by Al

Hi guys,

Feeling moody as I'm down with a skin tumour and going to get it remove by tomorrow morning. So there will be no posting till I finish my op, sorry but I promise to be back on thursday and keep you guys updated.

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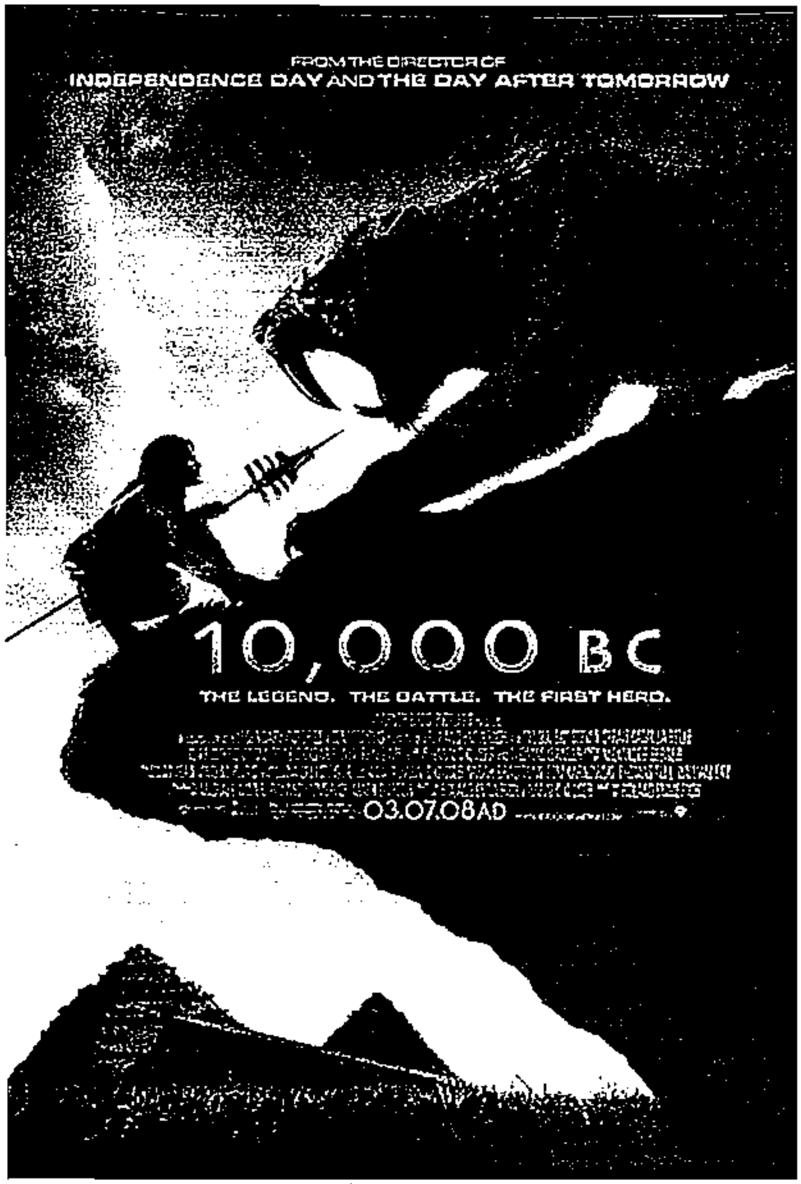
Back to 10,000BC

Mar. 6th, 2008 by Al



Yesterday, I catched the opening premiere of 10,000BC in my country.Sad to say the acting and the plot failed to live up the hype.It pales compared to stargate with heavy weight actors like Kurt Russell.A real pity because ficticious tale should have more credit.

One saving grace of the film is the breathtaking landscape and the mammoths graphics.Wonder why the sabre tooth does not look as vivid compared to the mammoths?With a stronger cast and better plot, this film can really pass with flying colors.Modernites always wonder how their ancestors at the end of ice age lived and hunted.we can indeed learn much from them in regards of communal tribal life as fossil age pass us.

The plot showcase about how a young hunter found his manhood through the rescue of his sweetheart and tribal folks from the hands of barbaric slave traders building pyramids for the Gods.Throughout the

journey, his mentor who's a friend of his father guided him.

I give the film 2 out of 5 stars, sad because they can do much better.

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Kazakhstan Today Wed Apr 9 16:46:36 EDT 2008

US STOCKS-Oil's jump over $112, UPS warning spark sell-off...

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Stocks fall as oil surges, UPS cuts profit forecast...

[illegible] Wed Apr 9 16:45:[illegible] EDT 2008

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New York Refinance Rates At 4.65%...

Fed cuts rates to 4.25%. See New Payment - No SSN Rqd. Act Now! Sponsored Link - Refinance. LeadSteps.com

Venezuela Wants to Boot Exxon from Louisiana Refinery...

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Venezuela looks to replace Exxon Mobil as partner in U. S. refinery...

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Venezuela Seeks New

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Toronto gets commodities boost, New York struggles with quarterly pessimism...
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Grains gione wild...
[illegible] sub Wed Apr 9 16:20:06 EDT 2008

Gold Gains Nearly $20 An Ounce...
RTTNews.com Wed Apr 9 15:04:33 EDT 2008

Steel firms raise prices...
Times of India Wed Apr 9 [illegible] 2008

Crude oil and gasoline prices hit new records as falling supplies boost energy futures...
International Herald Tribune Wed Apr 9 14:55:40 EDT 2008

North American markets flat after crude oil inventory report boosts prices...
1057 EZRock Wed Apr 9 14:46:46 EDT 2008

US STOCKS-Oil's jump over $112, UPS warning spark sell-off...
[illegible] UK Wed Apr 9 16:41:[illegible] EDT 2008

U.S. takes step toward allowing oil and gas drilling in rare whale's habitat...
Mediabroadcast Wed Apr 9 16:44:06 EDT 2008

Wall Street Closes Lower As Oil Reaches A New Record High...
RTTNews.com Wed Apr 9 16:44:04 EDT 2008

Oil Rises, Equities Drop...
Smart Money Wed Apr 9 16:43:51 EDT 2008

Crude at record $112 high...
Upstreamonline.com sub Wed Apr 9 16:43:16 EDT 2008

Oil Up, Wall Street Down...
Forbes.com Wed Apr 9 16:43:11 EDT 2008

Venezuela to tax oil revenues...
Upstreamonline.com sub Wed Apr 9 16:43:10 EDT 2008

Gazprom and Eni join forces...
Upstreamonline.com sub Wed Apr 9 16:43:03 EDT 2008

Wall Street Closes Lower As Oil Reaches A New Record High...
TradingMarkets Wed Apr 9 16:42:20 EDT 2008

Exec: Russia's Rosneft may up dividend payments on yr for 2007...
PRIME-TASS sub Wed Apr 9 16:41:59 EDT 2008

Stocks fall as oil jumps; UPS warns...
Interactive Investor International Wed Apr 9 16:41:53 EDT 2008

Stocks fall as oil jumps; UPS warns...
Interactive Investor International Wed Apr 9 16:41:49

Chalmette Refinery Operator -Oil Min...
Wall Street Journal Online sub Wed Apr 9 14:41:26 EDT 2008

UPDATE: Venezuela Seeks New Chalmette Refinery Operator...
Wall Street Journal Online sub Wed Apr 9 14:40:58 EDT 2008

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Financial Post sub Wed Apr 9 14:35:39 EDT 2008

UPDATE: Venezuela Seeks New Chalmette Refinery Operator...
Morningstar.com reg Wed Apr 9 14:35:23 EDT 2008

Venezuela Seeks New Chalmette Refinery Operator -Oil Min...
Morningstar.com reg Wed Apr 9 14:17:48 EDT 2008

UPDATE 1-Venezuela seeks new operator for Chalmette refinery...
Reuters Wed Apr 9 14:14:52 EDT 2008

UPDATE 1-Venezuela seeks new operator for Chalmette refinery...
Reuters UK Wed Apr 9 14:13:16 EDT 2008

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Gold gains 1.4pc as USD slips, oil jumps...
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Sangamo BioSciences inks 'zinc finger' deal for transgenic animal use...
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Yahoo! Canada Wed Apr 9 12:30:13 EDT 2008

ExxonMobil Chemical Sets To Make Biggest Presence at Chinaplas 2008...
Ein News sub Wed Apr 9 11:22:23 EDT 2008

ExxonMobil Chemical Sets To Make Biggest Presence at Chinaplas 2008...
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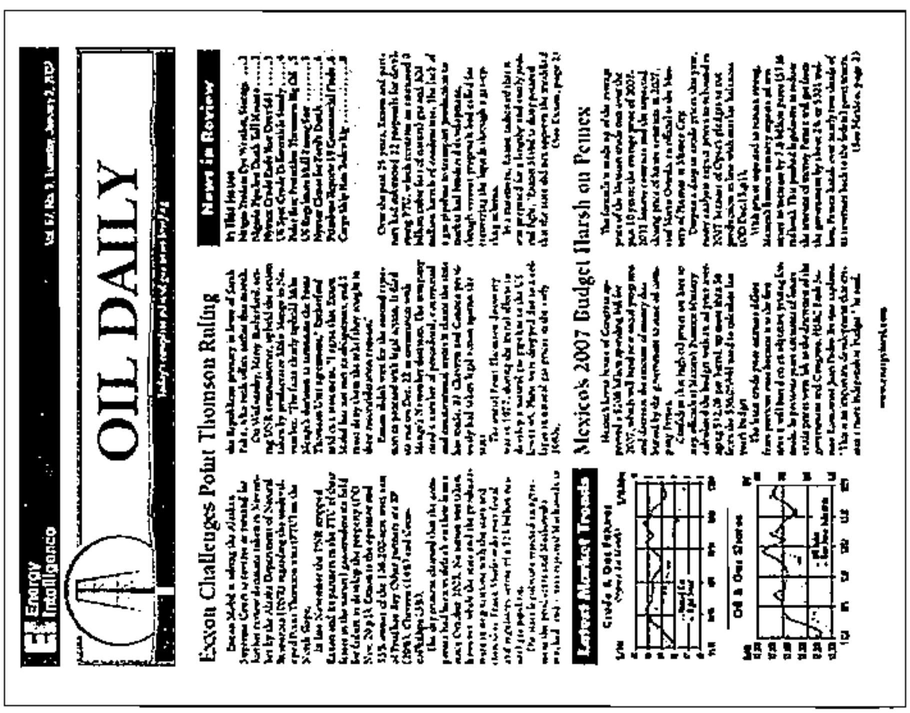
EXHIBIT 6 TO LANE DECL.

COMPARISON OF FRONT PAGES



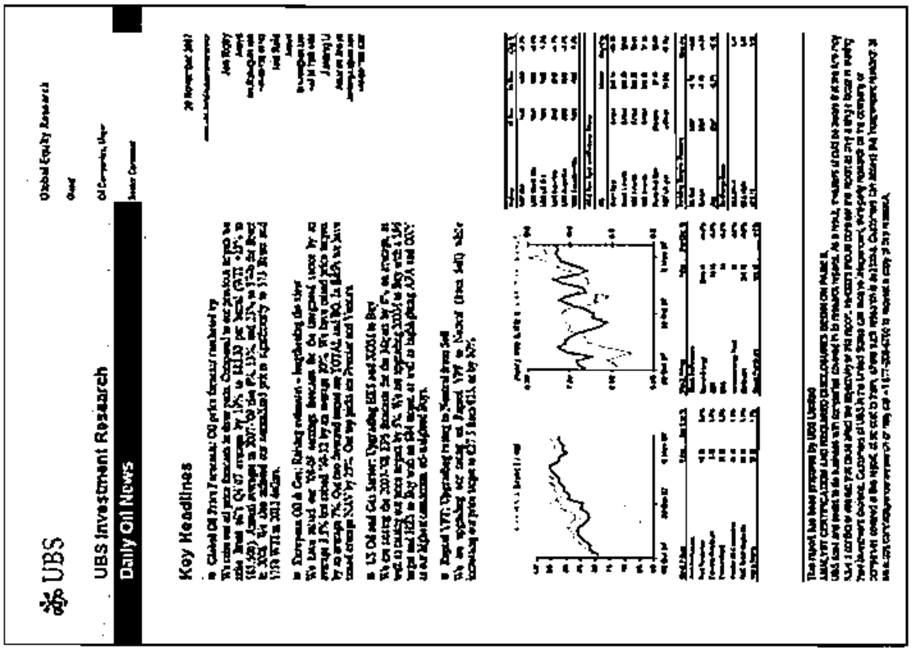


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EXHIBIT 7 TO LANE DECL.

UBS

Global Equity Research

Global

UBS Investment Research

Oil Companies, Major

Daily Oil News

Sector Comment

20 November 2007

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Key Headlines

■ **Global Oil Price Forecasts: Oil price forecast ratcheted up**

We raise our oil price forecasts in three parts. Compared to our previous targets we raise Brent oil's Q4'07 average by 19% to $82.30 per barrel (WTI +28% to $85.50b). Annual averages in 2007-'09 rise 6%, 13%, and 23% to $74b for Brent in 2008. We also inflated our normalized prices significantly to $73 Brent and $75b WTI in 2012 dollars.

■ **European Oil & Gas: Raising estimates – lengthening the view**

We have raised our '08-09 earnings forecasts for the integrated sector by an average 3.5% but raised '10-12 by an average 30%. We have raised price targets by an average 7%. Our two favoured names are TOTAL and BG. In E&Ps we have raised average NAV by 25%. Our top picks are Premier and Venture.

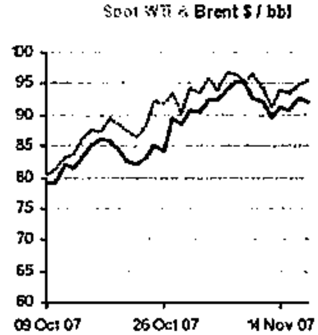
■ **US Oil and Gas Sector: Upgrading HES and XOM to Buy**

We are raising the 2007-'08 EPS forecasts for the Majors by 6% on average, as well as raising our price targets by 5%. We are upgrading XOM to Buy with a $96 target and HES to Buy with an $84 target, as well as highlighting APA and OXY as our highest conviction, oil-weighted Buys.

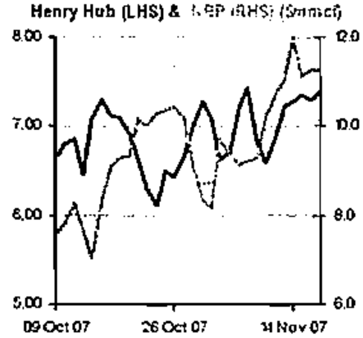
■ **Repsol YPF: Upgrading rating to Neutral from Sell**

We are upgrading our rating on Repsol YPF to Neutral (from Sell) while increasing our price target to €27.5 from €25, or by 10%.

Spot WTI & Brent $ / bbl



Henry Hub (LHS) & NBP (RHS) ($/mmcf)



Stock Prices	Price	Day Chg %
Best Performers		
Real Resources	10.35	3.0%
Calvalley Petroleum	6.05	1.9%
Dresser-Rand	35.56	1.3%
Frontier Oil Corporation	45.48	1.3%
FMC Technologies Inc.	55.15	1.1%
Noble Energy	72.50	1.1%

Stock Prices	Price	Day Chg %
Worst Performers		
Burren Energy	1015.00	-14.6%
KBR	34.15	-6.4%
ERG	14	-5.2%
Harvest Energy Trust	22	-5.0%
Hindustan	307.30	-4.5%
Bharat Petroleum	435.45	-4.4%

Indices		19-Nov	16-Nov	Chg %
S&P 500		1433	1459	-1.7%
UBS World Oils		1847	1856	-0.4%
UBS US Oils		1481	1463	1.2%
UBS Euro Oils		2642	2683	-1.7%
UBS Asian Oils		2192	2242	-2.2%
UBS Canadian Oils		1664	1596	4.2%
Oil & Gas Spot and Futures Prices				
IPE			19-Nov	Day Chg
Brent Spot	$ / bbl		$92.14	-$0.40
Brent 1 month	$ / bbl		$92.78	$0.66
WTI 1 month	$ / bbl		$95.75	$0.94
WTI 2 month	$ / bbl		$95.00	$1.15
Henry Hub Gas	$/mmbtu		$7.33	$0.09
NBP UK gas	p/therm		53.50p	-0.35p
Refining Margins (Reuters)				12 m avg
US Gulf	$/bbl	+5.70		+8.00
Europe	$/bbl	+7.68		+4.34
Asia	$/bbl	+9.24		+7.29
Exchange Rates				
US$ / Euro				1.47
US$ / NKr				5.51
US$ / £				2.05

This report has been prepared by UBS Limited

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 8.

Oil and Gas Market News

Oil price comment

OIL PRICE - Brent down around 20c from yesterday morning to $92.28 on fresh concerns over the US economy but somewhat offset by forecasts for a cold December. Expectations of another rise in crude stocks also dampened sentiment - the EIA is expected to report a 1.2mbbl increase in inventories when the data is released on Wednesday. Forecaster WSI Corp however predicted that the US Northeast, crucial to US heating oil demand, will face below normal temperatures in December.

Natural Gas Storage: Forecasting a 1-10 Bcf Injection for Week Ended November 16th

We expect the EIA to report a 1-10 Bcf injection on Wednesday, bearish relative to last year's 1 Bcf withdrawal and the five-year average of a 10 Bcf withdrawal. We expect inventories to remain relatively flat at 3,541 Bcf, increasing the surplus vs last year to +92 Bcf and the surplus vs the 5-year average to +282 Bcf. Last week, U.S. weather was 7% warmer than last year and 19% warmer than the 5-yr avg.

Dubai Output Slump Puts Heat on Benchmark

Dubai's crude oil production, operated by newly established Dubai Petroleum Establishment (DPE), has dwindled this year to some 60,000 barrels per day, posing a real challenge for the benchmark used to price half of the 12 million b/d of Mideast crude sold into Asia, industry sources familiar with the operation told IOD on Monday. (IOD)

Opec Keeps Status Quo, Adds Environment

Opec will not become a more aggressive or even revolutionary organisation, standing up for the world's poor. Instead, the producer group will build on dialogue with global oil consumers to address oil market and socioeconomic stability, and help fight climate change, it said at the end of its heads of state summit in Riyadh on Nov. 17-18 (IOD)

US Natural Gas Industry Likely to Feel Impact of Historic Drought

The US natural gas industry could well feel the repercussions of an intense drought in the US Southeast that has left the largest populated areas holding less than 60 days' supply of water. The lack of water could initially be bullish for the gas industry, since it will affect day-to-day operations at nuclear and coal-fired power generators. And if drought forces nuclear facilities to shut, gas-fired power generation would replace the load. But it could ultimately prove bearish, one Tennessee gas trader warns, if conditions don't improve and people are forced to leave, cutting residential and industrial gas demand (IOD)

Russia to Offer 10 Areas

The Russian natural resources ministry's subsoil agency, Rosnedra, has identified 10 areas to be offered for geological exploration in January 2008. The biggest is the Kaminsk oil and gas block in the Nenets autonomous region, which borders the Barents Sea to the north and the Komi republic to the south, and is a production center for state Rosneft, Lukoil and US ConocoPhillips, which export from the area by sea. The region lacks large-scale pipeline infrastructure, although pipeline monopoly Transneft has examined plans to build a northern Russian line linking Kharyaga in Timan-Pechora to Indiga on the Barents Sea. Russian Surgutneftegas also recently bought licenses in the Nenets district. Other areas on offer include the Viakhtinsk acreage near the Sakhalin Island city of Alexandrovsk. (IOD)

Company News

BP Begins Production from Trinidad's Mango Field

BP said Monday it had begun natural gas production from the Mango field, offshore Trinidad, bringing more good news after a large Azeri discovery last week. Gas from Mango will supply Atlantic LNG's liquefaction plant for export as LNG to international markets - including the U.S., as well as the domestic market. BP said the field is expected to add 750 million standard cubic feet a day of gas it can deliver, plus some associated condensate. (Reuters)

US Court Ruling Paves for Shell Reserves Settlement to Proceed

A New Jersey court ruled last week that it had no jurisdiction over a European shareholders case concerning a 2004 reserves scandal at Royal Dutch Shell, paving the way for a previous Dutch settlement to proceed. In April, Shell agreed to pay $352.6 million, excluding lawyers fees, to settle claims brought by European shareholders, who accused the company of defrauding them by overstating its reserves. (Reuters)

Shell eyes expansion of China petrochemicals plant

A Chinese petrochemicals joint venture between CNOOC and Royal Dutch Shell plans to expand capacity of its Nanhai complex in Guangdong province, a newspaper reported on Monday. The Huizhou Daily said Shell Chemicals Executive Vice President Ben Van Beurden told a delegation of officials from Huizhou, in Guangdong, about the expansion during a trip to London led by the city's mayor, Li Ruqui. (Reuters)

US court dismisses health suit against Chevron

The U.S. District Court in Northern California has dismissed two remaining claims accusing Chevron Corp. of harming the health of Ecuadoreans, the company said on Monday. The suit claimed the company's Texaco Petroleum Ecuadorean oil operations, which ended in 1992, hurt the health of Ecuadoreans. (Reuters)

Chevron's Blind Faith set for 2nd quarter output

Hundreds of workers are putting the finishing touches on Chevron massive $1 billion production platform Blind Faith and, if all goes well, oil and natural gas should flow from the facility in next year's second quarter. But there are still hurdles for Chevron to overcome to keep the project on schedule. That includes possible delays from bad weather and all the surprises that may come with bringing oil and natural gas up from reserves at depths below the seabed of more than 20,000 feet in the Gulf of Mexico. (Reuters)

StatoilHydro plans bigger renewable energy profile

StatoilHydro is working to promote carbon capture and storage (CCS), offshore windmills and biofuels as part of a strategy for its renewable energy portfolio. Chief Executive Helge Lund said on Monday that the more environmentally minded approach was not "advertising" but a way to boost profits. (Reuters)

Rosneft guides for lower reserve replacement ratio

Rosneft's reserve replacement ratio on the West Siberian fields is expected to be 86% in 2008, at 53% in 2009, and at 43% in 2010, the company's First Deputy Director of Exploration, Mikhail Gudyrin said yesterday, Interfax reports. He added that until 2012 Rosneft intends to annually invest Rb2.7 bn ($100 mn) in West Siberian exploration drilling, Rb2 bn ($80 mn) in seismic work in the region and Rb300 mn ($12 mn) in research.

The guidance is unexpectedly downbeat, as the oil community has come to expect at least 100% reserves replacement ratios (RRR). Rosneft itself reported 225% organic RRR under both SEC and SPE standards as of end-2006.

Transocean gets 3-year Anadarko rig contract

Transocean said on Monday it won a three-year contract worth up to $569.4 million for its ultra-deepwater drillship Discoverer Spirit from Anadarko Petroleum. The contract is expected to begin in 2010 following the completion of the rig's existing contracts in the Gulf of Mexico. (Reuters)

Gazprom Neft appoints Eni executives to board

Gazprom Neft appointed two high-level representatives from Eni to its board of directors on Monday. Eni Vice President of Supply and Portfolio Development Marco Alvera and Chief Operating Officer of Exploration and Production Stefano Cao were appointed to Gazprom Neft's board along with eight others from both Gazprom and Gazprom Neft. (Reuters)

Nippon Oil takes 40% stake in Block 16-2, offshore south Vietnam

Nippon Oil agreed last Friday to take a 40% stake in Block 16-2 offshore southern Vietnam from state-owned oil and gas company Petrovietnam, a Nippon Oil official said Monday. Under a production-sharing agreement, Nippon Oil Exploration will start seismic prospecting work this month with project operator Petrovietnam, which now has a 45% stake, and Vietsovpetro, a 50:50 joint venture between Petrovietnam and Russia which holds the remaining 15%, the official said. (Reuters)

Petrobras cranks up light oil rig after delays

Petrobras said on Monday its new 100,000 barrels per day rig on the light oil Golfinho field started producing crude last Friday after a series of delays. Meanwhile, the start-up of a huge 180,000 bpd rig on the heavy crude Roncador field, the P-52, which had also been scheduled for the end of last week, remains delayed. (Reuters)

Woodside, CPC in LNG Deal

Australia's Woodside Petroleum has signed an agreement with Taiwan's CPC outlining key terms for potential long-term LNG sales of 2-3 million tons/yr from the Woodside-operated Browse project. Woodside said Monday that the deal would run for 15-20 years, starting between 2013 and 2015. The preliminary agreement encompasses key commercial parameters, including price, and could help negotiations on further potential LNG sales from other Woodside Australian developments. (IOD)

Sinopec to Meet Demand

China's largest state refiner, Sinopec, has promised to tackle domestic fuel shortages by boosting product output, increasing imports and curbing exports to meet demand for transportation fuels. In a 10-step action plan, Sinopec General Manager Su Shulin has mapped out what the state giant will do in a bid to fulfill its "responsibility to society." Su also chairs listed affiliate Sinopec Corp. First, the company has pledged to keep quarterly refining runs above 42 million tons (3.42 million b/d) and has increased planned runs in December by 47,300 b/d to 3.43 million b/d. According to Su, the company has raised its January-October crude throughput by 5.4% from last year to 3.31 million b/d and its refined product output by 4.9% to 1.97 million b/d. The company will adjust its product slate to focus more on diesel and less on jet kerosene and naphtha, he said. (IOD)

UBS Publications

Global Oil Price Forecasts: Oil price forecast ratcheted up: Supply constraints versus slower demand growth

We raise our oil price forecasts in three parts. Compared to our previous targets we raise Brent oil's Q4'07 average by 19% to $82.30 per barrel (WTI +28% to $85.50b). Annual averages in 2007-'09E rise 6%, 13%, and 23% to $74b for Brent in 2008. We are extending our outlook by three years and forecast that in 2012 Brent and WTI will average $81 and $82, respectively. We also inflated our normalized prices significantly to $73 Brent and $75b WTI in 2012 dollars. In the next five years, we expect non-Opec oil production will begin to decline and global spare capacity will shrink to half its current size. Our view is based on bottom-up analysis of new developments and decline rates, combined with a perhaps optimistic view of growth from Iraq and other big wild-cards. Ongoing erosion of demand growth in North America will, we think, be exacerbated by slower global GDP growth. Oil demand growth accelerates, in our view, only in the 2010-'12 time frame, driven by GDP and tempered by high prices and greater efforts at efficiency-gains and conservation. There are the usual risks. But we highlight the emerging upside risk that markets may shift structural-pricing from marginal supply to rationing oil demand.

European Oil & Gas: Raising estimates – lengthening the view

We have raised our '08-09 earnings forecasts for the integrated sector by an average 3.5% but raised '10-12 by an average 30%. We have raised price targets by an average 7%.Our two favoured names are TOTAL and BG. In E&Ps we have raised average NAV by 25%, although we note this sector tends to move on price momentum rather than valuation calls. Our top picks are Premier and Venture. The focus of investors in oil services is primarily on the duration of the up cycle, with the potential for some further jump in profitability in certain sub-segments. In particular, we believe two effects are likely to be positive for the exploration focused segments of seismic and drilling.

Repsol YPF: Upgrading rating to Neutral from Sell

We are upgrading our rating on Repsol YPF to Neutral (from Sell) while increasing our price target to €27.5 from €25, or by 10%. While the principal reason for the upgrade is the significant oil price increase we are making today (see 'Raising estimates – lengthening the view') we also see some signs of light at the end of the tunnel in Argentina with respect to energy prices, given the 28% rise in retail diesel/gasoline pump prices the company has reportedly achieved. We have increased our group production by an average of 6%, mainly due to higher volumes in Libya and the US Gulf of Mexico. We have also added $250m pa of EBIT due to higher Argentine retail pump prices, although the recent imposition of a rise in gasoline export taxes has limited some of this upside. We have upgraded our Repsol EPS estimates by an average of 20% between 2007and 2012, primarily due to the significant oil price upgrade. The new assumptions lift our NAV estimate by 8% to €29.25 from €27. We have continued to set our price target at a small discount to our NAV to reflect the challenging upstream environment faced by Repsol in its Latin American operations, although the potential sale of a portion of YPF should begin to close this gap. Our new price target of €27.5 is therefore based on a 6% discount to our NAV. We have upgraded our rating to Neutral from Sell.

US Oil and Gas Sector: Raising Oil Price Forecast; Upgrading HES and XOM to Buy

Our revised WTI 2007-'09 estimates are $71.10/Bbl, $74/Bbl, & $73/Bbl, up from $66.35/Bbl, $65/Bbl, & $62/Bbl, respectively. Our 2008-'09 estimates are above consensus' $71/Bbl & $67/Bbl but below futures strips. We also raised the normalized price assumed in calculating NAV-based targets to $65/Bbl from $51/Bbl. We are raising the 2007-'08 EPS forecasts for the Majors by 6% on average, as well as raising our price targets by 5%. For the E&P sector, our 2008 CFPS, NAV, and price targets increase by 8%, 11%, and 7%, respectively. With the '08 futures strip nearly $20/Bbl above

consensus, we expect the Street to make meaningful upward revisions to estimates of oil weighted names in particular. Despite the sharp increase in crude prices over the last 2 months, natural gas weighted E&Ps have performed in line with oily peers and the Integrateds have declined 5% since September. We see both better upward estimate revision trends and valuations in oil-weighted names. We are upgrading XOM to Buy with a $96 target and HES to Buy with an $84 target, as well as highlighting APA and OXY as our highest conviction, oil-weighted Buys.

U.S. Refining Sector: Modestly Reducing 2008 Refining Margin Forecasts, "Normalized" Margin Unchanged

While oil prices and refining margins are correlated (correlation of 0.77), we expect the sharp rise in crude prices to adversely impact refining margins in the short term. We have slightly tweaked our 2008E & 2009E benchmark margins, our Gulf Coast 3-2-1 crack spread goes to $12.50/Bbl from $13.00/Bbl in 2008E and goes to $11.50/Bbl from $11.00/Bbl in 2009E. In addition, we have also tweaked our 4Q07E benchmark indicators to make them more in-line with current market conditions. We see 20% upside potential to our targets and recommend Valero with a Buy rating.

Crude oil price forecast upgrade: Impacts to Asian oil and gas sector

In China, we assume a higher crude oil price can be passed through to oil product prices gradually. In India, we still think the government might maintain control on prices of auto and coking fuels. We have raised our price targets for 11 companies in Asia, but believe CNOOC remains the best leveraged to a supply-driven higher crude oil price theme, with strong production growth, prudent cost management, and less exposure to changes in the tax regime. Other stocks with high oil exposure, such as PTTEP, CITIC Resources, and CNPC (HK), should also benefit, in our view. Following our more positive view on regulatory reform on oil product price reform, we upgrade Sinopec (from Sell to Neutral) and PetroChina (from Neutral to Buy).

ONGC - Upgrading price target to Rs1310 on higher long term oil price forecast. Neutral

We have increased our oil price forecasts to US$71/74/74/75/78/bbl in 2007/08/09/10/11, respectively, on constrained supplies and robust global growth of c4% through 2012. We have also increased our normalised Brent price forecast to US$73/bbl in 2012, driven by ongoing cost inflation for GlobalOilCo, Deepwater and Oil sands. We are raising our earnings estimates (FY 08 to Rs104.6 (+2%); FY 09 to Rs107.7 (+3.6%); and FY 10 to Rs100.7 (+5.7%)) on higher oil price realisations as we factor in a Re/$38 rate from 2009 and a higher subsidy contribution. We expect ONGC to continue to share around 30% of under-recoveries for auto and cooking fuels. We estimate ONGC's contribution to under-recoveries will marginally reduce from Rs170bn in FY 07 to Rs165 bn in FY 08, before it climbs back to Rs177 bn in FY 09. We reiterate our Neutral rating, and increase our price target to Rs1310. We have revised our DCF-based price target for ONGC from Rs1150 to Rs1310 (11.8% WACC, 2% terminal growth, Re/$38 from 2008), factoring in our oil price forecast increase. The stock offers a 3.4% dividend yield. We have not factored in any exploration upside.

PetroChina: After the party's over

Following PetroChina's A-share IPO, we believe investors should focus more on fundamentals. We believe the share price will be governed by four themes: 1) a higher crude oil price (UBS has raised its crude oil price forecasts); 2) asset injections; 3) refined product price and natural gas price reform, and 4) new discoveries. We upgrade our rating from Neutral to Buy. We now think the Chinese government will increase refined product and natural gas prices more aggressively than we had previously believed. PetroChina, as the largest natural gas supplier and second largest refiner in China, should benefit from price increases, particularly for natural gas. We believe PetroChina will announce more new discoveries (such as the Longgang gas field and Block H in Chad). We believe CNPC, PetroChina's parent, has about 5 billion barrels of recoverable oil reserves including reserves in Sudan that have not yet been injected into PetroChina. With a more balanced shareholder base following the A-share listing, we believe it will have more flexibility when considering the injection of politically-sensitivity assets. As asset injections are a long term, but important, driver, we have incorporated an option value of Rmb1.8/share from asset injections in our price target. We base our price target on a sum-of-the-parts valuation. We value the E&P business on a DCF model, assuming UBS's normalised oil price forecast of US$73/bbl (Brent) in 2013. Our price target also includes an option value assumption of HK$1.8/share from asset injections.

Sinopec: Improving fundamentals

Following the Chinese government's moves to increase refined product prices and natural gas prices in the past two weeks, we take a more positive view on product pricing and natural gas price reforms. We believe Sinopec's refining margin should be able to break even in 2008 and turn profitable in 2009. We believe Sinopec should benefit significantly from a more proactive increase in refined product prices, and we see this news as a strong catalyst for its share price. An increase in natural gas prices should also help the launch of Sinopec's Puguang gas field in 2009. We expect crude oil prices to decline from current levels to US$70-80/bbl in Q108. We forecast Sinopec's refining segment to earn exceptional profits (similar to what happened in Q107) in H108, which might drive the share price above its fundamental value. We base our price target on a sum-of-the-parts-valuation. Our exploration and production assets assumption incorporates the new UBS oil price forecasts (see Table 3). We value refining, marketing assets and chemical assets in line with the average regional multiples.

CNPC Reiterate Buy rating with new oil price forecasts

With the current share price, CNPC (HK) implies a long term crude oil price of about US$46/bbl from our DCF model. While the company is facing challenges such as slow production growth and rising cost, with 92% reserves in crude oil, it should be a good buying opportunity. The recent drilling update from CNPC (HK)'s partner in Bengara II is disappointing. However, according to CNPC (HK), the drilling programme is not yet completed, and it is still in the process of evaluating the data. While we think the discouraging news from Bengara II hurts the share price, we have not factored the exploration success into our price target. We have changed our valuation methodology from P/E to DCF. Our revised PT is based on new oil prices forecast with a discount rate of 9% and terminal growth rate of 2%.

CNOOC Ltd: Reiterate Buying rating with new crude oil price forecasts

CNOOC is well position to benefit from a costpush high crude oil price environment, as it has strong production growth in from 2008 to 2010, prudent management in cost, and exposed to increase in tax. We see the recent share price correction presents a good buying opportunity. We believe the correction has more to do with the market as a whole rather than company fundamentals specific. In next few months, we might see CNOOC announce details reserves estimates on their discoveries and A-share listing plan. We have changed our valuation methodology from P/E to DCF. Our PT is based on new oil prices forecast with discount rate

of 7.9% and a terminal growth rate of 2%. Currently, the stock is trading in line with PetroChina in terms of P/E 2008E, and we believe CNOOC should command at least a 20% premium.

CITIC Resources Holdings Limited: Reiterate Buy rating with new crude oil price forecasts

We see the recent correction as a further buying opportunity. The correction has been mainly driven by (1) the lack of further acquisitions; (2) a change of management; and (3) a delay in the completion of the acquisition of the Kazakhstan oil assets. However, we believe the company will continue to grow its oil portfolio through M&A, and that the Kazakh deal should be completed in December 2007. With over 190 million bbl crude oil reserves, a higher crude oil price should help the share performance. However, the positive impact from a higher crude oil price environment has been overshadowed by the above factors. We believe that once the Kazakh assets acquisition is completed, investors should pay more attention to the company's crude oil price leverage. Our PT is based on a sum-of-the-parts valuation. We use a DCF with the new global oil price assumption to evaluate the E&P assets.

PTT Public Company Ltd.: LPG risk heightens with oil prices

Mostly to account for upgrades to PTTEP and PTT Chemical, we are raising our pre-ex EPS estimates from Bt31.3 to Bt32.1 (07E), from Bt34.3 to Bt35.9 (08E), from Bt35.2 to Bt36.1 (09E) and from Bt36.0 to Bt41.6 (10E). We are also raising our price target for PTT from Bt350/sh to Bt401/sh. Given limited upside potential to our new price target, we are lowering our rating from Buy to Neutral. Unlike for PTTEP and PTT Chemical, our new global oil price forecasts could create new risks for the parent company. We believe higher oil prices could dent earnings in the company's oil marketing business. We also believe new risks could emerge as PTT and its associates support LPG price caps in Thailand We expect Thailand's natural gas prices to rise in 2008 and 2009. If LPG price caps are not removed, there is a risk that margins on PTT's gas separation plants could disappoint. We also estimate that LPG price caps could cost PTT's refiners (in refining margin terms) up to US$2.0/bbl in Q407 and Q108. We value PTT using a sum-of-the-parts methodology and its core business using DCF analysis (10% discount rate), which yields our PT. We mark the company's listed affiliates to the UBS price targets, average trading level, or book value where appropriate.

Cairn India - Revising up price target to Rs225 on higher oil price. Sell.

We have increased our oil price forecasts to US$71/74/74/75/78/bbl in 2007/08/09/10/11, respectively, on constrained supplies. We have also increased our normalised Brent price forecast to US$73/bbl in 2012, driven by ongoing cost inflation for GlobalOilCo, Deepwater and Oil sands. We are increasing our earnings for Cairn India (CIL) to Rs1.3 (+14%) in 2007, Rs0.19 (+61%) in 2008, and Rs10.4 (+28%) in 2009, on a higher oil price forecast. The government has agreed to grant rights-of-use for the pipeline. Front-end engineering and design has already been completed and the procurement process for several long lead items has commenced. Our valuation of the Rajasthan block assumes that the evacuation pipeline is in place by the time crude production starts in 2009. With 2P reserves of 632m bbl, CIL's Rajasthan block accounts for 93% of net 2P recoverable reserves and 92% of our price target. We reiterate our Sell rating and increase our price target to Rs225 from Rs169. Our price target is based on our NAV estimate for Cairn India's E&P assets. We use a DCF to value CIL's stake in the Rajasthan, Ravva and Cambay blocks (using a WACC of 10.8%, LT crude oil price $73/bbl, Rs/$ of 38 from CY2008). For the remainder of CIL's assets, we use EV/boe. We factor in exploration upside by valuing a risk-adjusted 360m bbl of prospective resources.

Australian Oil Sector: Raising oil price forecasts

Tap benefits most on EPS upside, followed by Oil Search (Neutral). AWE (Buy) and Roc (Buy). On a valuation (NAV) perspective, AWE and Oil Search get the most uplift, followed by Roc Oil (Buy) and Santos (Neutral). Our Oil Search share price target is up 16.7%.

Woodside Petroleum Limited: Browse LNG for CPC. Stybarrow on stream

Woodside has signed a key terms agreement with CPC Corporation Taiwan for the potential sale of 2 to 3 mmtpa of LNG from the proposed Browse LNG development. This follows a similar agreement on 6 Sept for the potential sale of 2 to 3 mmtpa of LNG from Browse with PetroChina. In our view, these preliminary agreements provide a strong case for Browse LNG eventually moving forward. Browse LNG plant development proposals range from a new offshore (lagoonal or floating) or onshore facility in the Kimberlies / Darwin, to expansion of existing Burrup LNG production facilities (NWS and / or Pluto). We assume Browse LNG is initially developed in 2014 as a onshore single train project, that later expands to a 15 mmtpa LNG project, possibly worth up to around A$12 / WPL share. Stybarrow (WPL 50%, BHP 50%) oil production began on 19 Nov 2007. Production is expected to ramp up to 50,000-60,000 bopd (100%) by around six months after start-up. Total Stybarrow capex is around US$760m (gross). We estimate Woodside's 50% share of Stybarrow is worth A$801m, or 118 cps. Our NAV estimate is based on a DCF (10% nominal discount rate) of Woodside's forecast cash flow over the 2P reserve life of producing assets and all committed projects. Our 12-month share price target is A$52.20 and is based on our NAV, project growth, contingent resources and exploration upside.

UBS Oils: Thailand reassessed

PTTEP, PTT Chemical, and PTT shares are down by 21%, 17% and 16% from peak levels, respectively. The share price declines combined with an increase to our global oil price forecasts has prompted a review. PTTEP: Rating upgraded from 'Sell' to BUY and price target upgraded from Bt138/sh to Bt168/sh. We have upgraded average selling prices but also factored in further production cost inflation. PTT Chemical: Rating upgraded from 'Neutral' to BUY and price target upgraded from from Bt134/sh to Bt157/sh. The upgrade to our global oil price forecasts has led to a meaningful upgrade of our long-term olefin price forecasts but only small change to PTT Chemical's natural gas feedstock cost. PTT Public: For the first time in 4 years, we downgrade our rating for PTT from 'Buy' to NEUTRAL but upgrade our price target from Bt350/sh to Bt401/sh mostly for exposure to PTTEP and PTT Chemical. We believe the prospect of higher oil prices is not positive for PTT's core business or for PTT's refiners particularly given exposure to domestic LPG prices. We maintain our Neutral rating on Thai Oil. While we have Buy ratings on Rayong Refinery and Aromatics, we are cautious on these and most refining stocks in Asia. While we believe the supply side picture continues to look bright, we believe the prospect for higher oil prices combined with downside risks to global GDP growth could lead to downside risk to fundamentals at these companies. Also the higher global oil prices move, the more costly LPG subsidies become.

SK Energy: Upgrading from Neutral to Buy post share price decline

SK Energy's share price has fallen about 20% from its peak close of Won210,000/sh. This has prompted a review of our

rating. Following an upgrade to UBS global oil price forecasts, we are upgrading our pre-ex EPS estimates from Won13,706 to Won13,957 (07E): from Won15,756 to Won16,002 (08E) and from Won15,731 to Won16,562 (09E). We also raise our price target from Won216,000 to Won240,000 and upgrade our rating from Neutral to Buy. While we are still cautious on most regional refiners, we favour SK Energy for its exposure to upstream oil and gas. This growing exposure is unique in our view when compared to refining peers in the region SK Energy has 510m boe of proven oil and gas reserves and plans to grow its production from about 22,000boed this year to nearly 70,000boed by 2010. Most of SK's reserves are natural gas, but the majority of production growth through 2010 will be supported by liquids (crude oil, condensate and LPG We value SK Energy's core business at Won19.0tr and value the 91% stake in SK Incheon at Won4.7trn using a DCF methodology (8% WACC and 9.4% WACC, respectively).

Japanese Oil Sector Update: Revising our earnings forecasts to reflect upward revision to crude price assumption

We are revising up our WTI crude oil price assumption to \$71.10/bbl (from \$66.35/bbl) for 2007, \$74.00\$/bbl (\$65.00\$/bbl) for 2008, and \$73.25\$/bbl (\$62.00/bbl) for 2009. Based on our revised crude oil price assumption, Jul-Sep results, information obtained from results briefings and company visits, and various statistics we have reviewed our earnings forecasts for the oil companies. The earnings climate for mainstay businesses is improving for oil/natural gas development operations due to sharp hikes in crude oil prices, but is worsening for petroleum product operations given the domestic demand slowdown and weaker margins for some products, and is also deteriorating for petrochemicals products, reflecting margin declines for some products. Reflecting changes to our earnings estimates and share price fluctuations since our last investment review, we are changing our price targets and ratings as shown in the table below. We are upgrading our ratings for Nippon Oil, Nippon Mining, and Cosmo Oil from Neutral to Buy as their share prices have declined and their investment indicators now appear undemanding.

Canadian Oil & Gas: Pumping up oil prices

Equally important, our long-term foreign exchange rate assumption rises to US\$0.95, up from US\$0.815 previously. The impact of our revised assumptions varies considerably throughout our coverage universe, with crude oil-weighted names experiencing the largest increases in estimates, while natural gas weighted companies are negatively impacted by the higher Canadian dollar. On average, target prices have increased by roughly 5%, with a bias toward the large-cap, oil weighted names. Within the large cap E&P/Integrated's our top picks are CNQ, ECA, NXY and SU, and UTS in the small cap oil sands. In the junior E&P space our top domestically focused pick remains CMT and among the junior internationals we prefer AXC. In the energy trust space our top picks are CPG.un, PGX.un and VET.un.

US Oilfield Service & Equipment: Higher Oil Prices Modestly Boost Spending Outlook

Adjusting the Cash Flow Plowback portion of our 5-component UBS Upstream Spending model, we are now forecasting global spending to increase 15% in 2008, up from 13% previously. Internationally, we are now forecasting 20%/18% growth in '07/'08, while North America is expected to increase 4%/11% Our increased commodity price forecast has limited impact on activity levels, in our opinion, particularly in North America, which is considerably more natural gas sensitive. Outside of North America, our revised forecast may provide further upside for pricing as activity levels are already at high, sustained levels. Coming off of a lackluster 3Q earnings season, combined with the OSX up 39% year to date, we wouldn't be surprised to see some profit taking in the sector through year-end. That being said, fundamentals are pointing toward a strong 2008 for service stocks, particularly the large cap diversified names.

Sasol Ltd: Sharp oil price upgrade out to 2012

2008 impact for Sasol is small (30% of production capped at \$76.4/bl/rand appreciation/June year end) at 3% up to R30. 2009 forecast is raised 11% to R34 (using \$70/bl oil, R7.54/\$) and our 2010 forecast up 44% to R35 (using \$76/bl, R7.68/\$). We note that these forecasts are still conservative in the short term with spot over \$90/bl. Target price is raised as a result by 25% to R425. (DCF based). Our 2009 forecast is still 30% lower than would be implied by the spot oil price. Sasol is among the biggest beneficiaries of high oil prices (its fuel is derived from coal). This removes the problem of finding oil that others face and with it a rising tax take by Governments and exploration cost growth. This upgrade also makes its GTL/CTL ventures more attractive (mitigated partly by the industry cost issues). Following the profit upgrade we are returning Sasol to our Buy list. This is due to our positive view on the oil sector supplemented by Sasol's medium term growth potential, polymers (2008-9), GTL (2009, 2011) and domestic fuel (2009-2014).

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Source: UBS

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The risks associated with our oil investment theses include lower oil and natural gas prices, margins for global refining, marketing, and chemicals, as well as normal exploration risks associated with the oil and gas business. E&P companies are subject to risks associated with unexpected movements in volatile natural gas and crude oil prices, as well as the impact that political, economic and meteorological events could impart. Moreover, E&P companies are subject to geologic risk (i.e., exploration risk).
Investing in oilfield service stocks is an inherently risky affair and not for the faint of heart. The stocks are among the most volatile in the equity market. Furthermore, industry conditions and activity levels are subject to numerous risks including: weather, commodity price changes, political events in numerous countries around the world, global and regional economic conditions, rapidly changing earnings conditions, merger and acquisition activity by its customers (oil companies), changing technologies, and access to capital both within the industry and for the customers. Therefore, caution should be exercised when analyzing and investing in oilfield service stocks. The offshore construction market is very competitive and there has been significant overcapacity in the past. This can lead some competitors to bid too aggressively for work, which has the potential to diminish profit margins for all participants.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	Buy	55%	40%
Neutral	Hold/Neutral	36%	35%
Sell	Sell	9%	22%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	Buy	0%	29%
Sell	Sell	0%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2007.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).
Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

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Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Addax Petroleum[2a, 2d, 4b, 4c]	AXC.TO	Buy	N/A	C$40.35	19 Nov 2007
Apache Corporation[2a, 4b, 6c, 16b]	APA.N	Buy	N/A	US$99.49	19 Nov 2007
Aromatics (Thailand)[2c, 4b]	ATC.BK	Buy	N/A	Bt65.50	19 Nov 2007
Cairn India Limited	CAIL.BO	Sell	N/A	Rs223.10	19 Nov 2007
China National Offshore Oil Corporation[2c, 4d, 16a, 16b, 22]	0883.HK	Buy	N/A	HK$12.48	19 Nov 2007
China National Petroleum Corporation	0135.HK	Buy (CBE)	N/A	HK$4.96	19 Nov 2007
CITIC Resources Holdings Limited[2a, 4b, 5, 13, 16a]	1205.HK	Buy	N/A	HK$4.55	19 Nov 2007
Compton Petroleum[16b, 20]	CMT.TO	Buy (CBE)	N/A	C$7.98	19 Nov 2007
Cosmo Oil[4b, 13]	5007.T	Buy	N/A	¥431	19 Nov 2007
EnCana Corporation[2a, 4b, 4c, 16b]	ECA.N	Buy	N/A	US$66.78	19 Nov 2007
ExxonMobil Corp.[6b, 7, 8, 15, 16b]	XOM.N	Buy	N/A	US$84.11	19 Nov 2007
Hess Corp.[16b]	HES.N	Buy	N/A	US$67.93	19 Nov 2007
Nexen Inc.[2b, 16b, 22]	NXY.TO	Buy	N/A	C$29.31	19 Nov 2007
Nippon Mining Holdings[2c, 4b]	5016.T	Buy	N/A	¥804	19 Nov 2007
Nippon Oil	5001.T	Buy	N/A	¥880	19 Nov 2007
Occidental Petroleum Corp.[6b, 7, 16b]	OXY.N	Buy	N/A	US$68.01	19 Nov 2007
Oil & Natural Gas Corporation	ONGC.BO	Neutral	N/A	Rs1,261.40	19 Nov 2007
PetroChina[2a, 4b, 5, 13, 16a, 16b, 22]	0857.HK	Buy	N/A	HK$14.52	19 Nov 2007
PTT Chemical[5]	PTTC.BK	Buy	N/A	Bt114.00	19 Nov 2007
PTT Exploration & Production	PTTE.BK	Buy	N/A	Bt135.00	19 Nov 2007
PTT Public Company Ltd.	PTT.BK	Neutral	N/A	Bt362.00	19 Nov 2007
Rayong Refinery PCL	RRC.BK	Buy	N/A	Bt23.30	19 Nov 2007
Repsol YPF[2b, 4b, 6a, 16b]	REP.MC	Neutral	N/A	€24.88	19 Nov 2007
Santos Limited[4a, 4b, 13, 15b]	STO.AX	Neutral	N/A	A$13.50	19 Nov 2007
Sasol Ltd[16b]	SOLJ.J	Buy	N/A	RCnt33,100	19 Nov 2007
Sinopec[2a, 4b, 5, 16a, 16b, 22]	0386.HK	Neutral	N/A	HK$10.42	19 Nov 2007
SK Energy[2c, 4d, 5]	096770.KS	Buy	N/A	Won166,500	19 Nov 2007
Thai Oil[2c, 4d]	TOP.BK	Neutral	N/A	Bt85.00	19 Nov 2007
Valero Energy Corporation[2a, 3, 4b, 5, 16b]	VLO.N	Buy	N/A	US$66.01	19 Nov 2007
Woodside Petroleum Limited[2a, 4d, 8, 16b]	WPL.AX	Neutral	N/A	A$48.50	19 Nov 2007

Source: UBS. All prices as of local market close.
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Additional Prices: Australian Worldwide Exploration Ltd, A$2.93 (19 Nov 2007); BG Group, 951p (19 Nov 2007); BP, 573p (19 Nov 2007); Canadian Natural, C$70.50 (19 Nov 2007); Chevron Corp., US$85.03 (19 Nov 2007); Crescent Point Energy Trust, C$22.95 (19 Nov 2007); Gazprom, US$51.00 (19 Nov 2007); Marathon Oil Corporation, US$56.33 (19 Nov 2007); Oil Search Limited, A$4.73 (19 Nov 2007); Petroleo Brasileiro, R$77.30 (19 Nov 2007); Premier Oil, 1,105p (19 Nov 2007); Progress Energy Trust, C$10.36 (19 Nov 2007); ROC Oil Company Limited, A$2.95 (19 Nov 2007); Rosneft, US$8.73 (19 Nov 2007); Royal Dutch Shell, 1,941p (19 Nov 2007); StatoilHydro ASA, NKr166.00 (19 Nov 2007); Suncor Energy Inc., C$99.91 (19 Nov 2007); TOTAL, €54.01 (19 Nov 2007); Transocean Inc., US$116.86 (19 Nov 2007); Venture Production, 759p (19 Nov 2007); Vermilion Energy Trust, C$35.59 (19 Nov 2007); Source: UBS All prices as of local market close.

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21 November 2007

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- **Oil price comment**

Oil price: $96.10 +$3.82/bbl vs. yesterday morning. Last US$1 move was after European markets closed. Brent hits an all-time high and WTI currently at $98.86/bbl, only a touch short of the magic $100/bbl.

- **Nigeria Seeks Energy Industry Control Amid Rising Oil Prices**

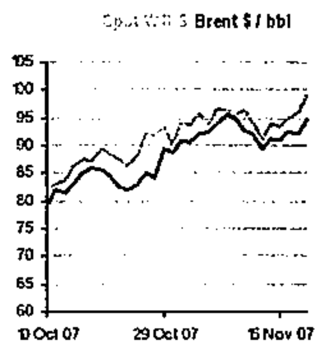
With global oil prices surging near $100 a barrel, Africa's leading oil exporter wants to review agreements allowing oil companies to recoup their costs before sharing profits from deep water exploration, and consolidate all its joint venture oil assets into one potentially powerful company with a global reach.

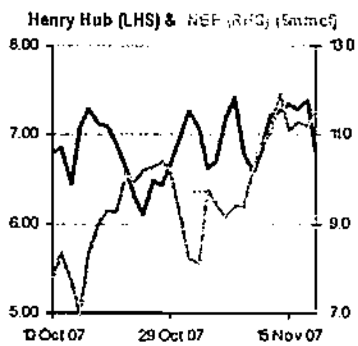
- **Shell Mulls Stakes Sale in Nigeria Blocks**

Some operations at Shell's huge Scotford refining complex near Edmonton, Alberta, resumed on Tuesday, a day after a fire damaged its oil sands upgrader, the company said.

- **Gazprom chairman says has no offer from TNK-BP**

Gazprom has not received any official offer to buy into BP's TNK-BP, Gazprom's chairman Dmitry Medvedev said on Tuesday.





Stock Prices	Price	Day Chg %
Best Performers		
Real Resources	10.85	6.0%
Cameron International	93.87	5.1%
Hess	71.75	4.9%
Occidental Petroleum	71.50	4.1%
Suncor Energy	102.00	3.5%
ExxonMobil	87.82	3.2%

Stock Prices	Price	Day Chg %
Worst Performers		
Burren Energy	1001.00	-13.2%
Cherat Petroleum	398.10	-8.4%
Harvest Energy Trust	22	-6.3%
Rider Resources	3	-6.0%
Dana Petroleum	1239.00	-5.4%
Hindustan	300.45	-5.1%

Indices	20-Nov	19-Nov	Chg %
S&P 500	1440	1433	0.4%
UBS World Oils	1847	1856	-0.4%
UBS US Oils	1481	1463	1.2%
UBS Euro Oils	2542	2588	-1.7%
UBS Asian Oils	2192	2242	-2.2%
UBS Canadian Oils	1664	1596	4.2%

Oil & Gas Spot and Futures Prices			
IPE		20-Nov	Day Chg
Brent Spot	$ / bbl	$94.68	$2.54
Brent 1 month	$ / bbl	$95.49	$3.21
WTI 1 month	$ / bbl	$99.16	$3.41
WTI 2 month	$ / bbl	$90.41	$3.41
Henry Hub Gas	$/mmbtu	$6.81	-$0.57
NBP UK gas	p/therm	55.00p	1.50p

Refining Margins (Reuters)			12-m avg
US Gulf	$/bbl	+6.15	+8.01
Europe	$/bbl	+7.02	+4.36
Asia	$/bbl	+5.79	+7.33

Exchange Rates	
US$ / Euro	1.48
US$ / HK$	5.33
US$ / £	2.07

Oil and Gas Market News

Oil price comment

Oil price: $96.10 +$3.82/bbl vs. yesterday morning. Last US$1 move was after European markets closed. Brent hits an all-time high and WTI currently at $98.86/bbl, only a touch short of the magic $100/bbl the market seems desperate to see. Yesterday's rally was led by heating oil with cold weather forecast for some areas of the US as it heads towards the Thanksgiving holiday and in Asia. Also delays to the restart of the BP Whiting refinery. There was also some weakening in the US$ which does have influence in the current market and reports of a bullish upgrade to medium term prices at a Swiss investment bank. Gasoline +6.99c to $2.45/gallon and Heating Oil +8.59c to $2.69/gallon.

Natural Gas Storage: Forecasting a 1-10 Bcf Injection for Week Ended November 16th

We expect the EIA to report a 1-10 Bcf injection on Wednesday, bearish relative to last year's 1 Bcf withdrawal and the five-year average of a 10 Bcf withdrawal. We expect inventories to remain relatively flat at 3,541 Bcf, increasing the surplus vs last year to +92 Bcf and the surplus vs the 5-year average to +282 Bcf. Last week, U.S. weather was 7% warmer than last year and 19% warmer than the 5-yr avg. Since September, weather has been 27% and 26% warmer than last year and normal, respectively. The weather-adjusted S/D balance tightened 1 Bcf from the prior week and was 0.5 Bcfd tighter than the 5-year avg. We have now entered the traditional withdrawal season. However, due to warmer than normal weather, we expect a modest 1-10 Bcf injection to be reported this week, bearish vs seasonal average of a -10 Bcf withdrawal.

US gasoline demand dips again from year-ago levels: MasterCard

The US consumed 9.294 million b/d of gasoline during the week ended November 16, marking the fourth consecutive week of year-over-year declines, MasterCard Advisors said Tuesday. In its weekly estimates of retail gasoline consumption, consulting firm MasterCard Advisors said total consumption for the week was 65.056 million barrels, down 0.5% from the same week a year ago, but up 0.1% from the previous week ending November 9, the report said. (Reuters)

Nigeria Allots $560 Million To Commission Charged With Developing Niger Delta

Nigerian President Umaru Yar'Adua has earmarked $566 million for the Niger Delta Development Commission (NDDC) — charged with implementing the Niger Delta Master Plan — in his federal budget proposal for 2008 (IOD)

OPEC exports unchanged in October vs average September-LMIU

OPEC seaborne oil exports, excluding Angola, rose by just 20,000 barrels per day (bpd) in October versus the average for September, Lloyd's Marine Intelligence Unit (LMIU) data showed on Tuesday. The consultancy said shipments from 11 OPEC members, including Iraq and excluding new member Angola, averaged 22.75 mn bpd in October compared with 22.73 million bpd in September. (Reuters)

Nigeria Seeks Energy Industry Control Amid Rising Oil Prices

With global oil prices surging near $100 a barrel, Africa's leading oil exporter wants to review agreements allowing oil companies to recoup their costs before sharing profits from deep water exploration, and consolidate all its joint venture oil assets into one potentially powerful company with a global reach. "We're looking at models like Petronas in Asia," said Tony Chukwueke, head of Nigeria's Department of Petroleum Resources, citing Malaysia's state-run oil company. It has oil and gas operations in more than 30 countries. (Reuters)

Study Cautions Against US Becoming Too Dependent on Foreign Gas

Opening areas currently off limits to drilling and development would not eliminate the need for the US to import significant volumes of natural gas, a new study says. The study by the Energy Forum at Rice University's Baker Institute for Public Policy found that under a business-as-usual scenario, where US lands are not opened up for drilling, US consumers could depend on LNG imports for as much as 30% of total supply in 2030. However, such dependence on foreign gas has strong implications for security of natural gas supply, as the US becomes more reliant on LNG from the Middle East and Africa, the report cautioned. (IOD)

Saudi Arabia says gas pipeline fire killed 40

The final death toll from a gas pipeline fire in Saudi Arabia on Sunday was 40, Saudi Aramco said on Tuesday. Officials had earlier said 28 people had died and 12 were missing after the fire that was caused by a gas leak near the Hawiyah natural gas liquids plant, which was extinguished. (Reuters)

Activists Urge UN Energy Sanctions as EU Squeezes Myanmar

Human rights activists have called on the UN Security Council to ban all new investment in Myanmar's oil and gas sector and impose targeted financial sanctions on the country's state-owned entities — including Myanmar Oil and Gas Enterprise (MOGE) — the earnings of which substantially benefit the military (IOD)

India Hints at Iran Gas Pipeline Progress

India's junior oil minister, Dinsha Patel, told Parliament Tuesday that Indian officials will meet with their Pakistani counterparts "soon" to resolve some of the issues stalling trilateral agreement on the proposed $7.4 billion Iran-Pakistan-India natural gas pipeline (IOD)

Canada September Output Slips

Canadian oil supplies slipped in September after hitting record levels in August, according to data released by Statistics Canada. However, output was still higher than in any other month since March and easily beat September 2006 (IOD)

Oil Sands Lift Canada Reserves

Canada's crude oil reserves grew 33% in 2006 due to companies booking resources as they developed new oil sands projects and expansions, the industry's main lobby group said on Tuesday. Meanwhile, the country's natural gas reserves were relatively flat for the seventh straight year, the Canadian Association of Petroleum Producers (Capp) said. Established minable oil sands reserves increased by 45% to 8.9 billion bbl last year as Canadian Natural Resources booked resources at its Horizon project in northeastern Alberta, CAPP said. (IOD)

Company News

Shell Mulls Stakes Sale in Nigeria Blocks

Shell is considering selling $900 mn worth of interests in Nigerian offshore blocks as it restructures and reduces its business in the troubled region, people familiar with the matter said Tuesday. The news surfaces after Shell last week unveiled restructuring plans to cut costs and jobs at its Nigerian ventures following months of unrest and pressure by the Nigerian government to renegotiate contracts. (Reuters)

Shell's Scotford refinery output cut after fire

Some operations at Shell's huge Scotford refining complex near Edmonton, Alberta, resumed on Tuesday, a day after a fire damaged its oil sands upgrader, the company said. Shell's 98,000 barrel per day refinery and its 155,000 bpd upgrader ran at reduced rates while its chemical plant was operating normally, company spokesman Randy Provencal said. Construction of an expansion to the upgrader was also continuing. (Reuters)

Huge Fine Sought Against BP

Some victims of the fatal explosion at BP's refinery in Texas City in 2005 asked a judge on Tuesday to impose a $1 billion fine in exchange for the company's agreement to plead guilty to one felony, their lawyer said. (IOD)

PDVSA, TOTAL eye boosting Orinoco output by 400kboe/d

PDVSA and Total could boost production in their Orinoco oil project by 400,000 b/d to 600,000 b/d, PDVSA president and Energy and Oil minister Rafael Ramirez said in Paris, state news agency ABN reported. "We have advanced a lot with Total, once the process of nationalization was concluded, into the possibility of tripling the production that we have jointly," Ramirez was quoted as saying. (Reuters)

Somalia Letter Said Total Oil Deal Illegal

Somalia has deemed a Total oil exploration contract in the country illegal but has proposed negotiations for a new deal, according to a letter obtained by Dow Jones Newswires. "The exploration agreement signed in between Total and the Transitional National Government (a previous interim government) cannot be considered as valid" because "the TNG was already overthrown by the war lords" when it was signed, said the letter, signed by Ali Mohamed Gedi, then prime minister of Somalia who resigned last month. (Reuters)

Exxon Signs Exploration Pact With Libya

Exxon Mobil Corp. signed a deal to explore for oil and natural gas off the Libyan coast, further cementing ties with the oil-rich African nation. Yesterday's agreement comes a year after Exxon Chief Executive Rex Tillerson met face-to-face with Libyan leader Col. Moammar Gadhafi and less than two years after the U.S. ended its official designation of Libya as a sponsor of terrorism. Unlike previous exploration deals that Exxon has won in Libya in the past couple of years, the latest deal was negotiated directly between the two, outside the auction process. (Reuters)

ConocoPhillips cancels Irish refinery sale

ConocoPhillips has cancelled a planned sale of Ireland's Whitegate oil refinery which the U.S.-based oil major put up for sale earlier this year. "We've elected to retain the refinery versus selling it," said spokesman Bill Graham by telephone from ConocoPhillips' headquarters in Houston, Texas. (Reuters)

Eni CEO Says Interest of All To Reach Accord On Kashagan

1) It is in the interest of all parties to reach an accord over the Kashagan field, said Chief Executive Paolo Scaroni of Eni SpA (E), the operator of the project in Kazakhstan. 2) Eni CEO Paolo Scaroni said he did not expect current high oil prices to last for a long time but that markets remained highly sensitive, Italian news agency ANSA said on Tuesday. (Reuters)

Transgaz, Mol To Resume Talks On Arad-Szeged

The representatives of Transgaz and Mol will resume this year the talks over Arad-Szeged gas pipeline, news agency Mediafax reported, citing Transgaz's general director Ioan Rus as saying. "There is a joint interest from both the Romanian and Hungarian part. We are waiting for Mol's response on the matter", Rusu said in a press conference. (Reuters)

Galp Positions Itself to Enter Venezuela with Series of New Upstream Deals

Galp Energia plans to enter Venezuela's Mariscal Sucre offshore natural gas project and that country's oil-rich Orinoco river belt, under an agreement that was expected to be signed Tuesday with PDVSA. (IOD)

Gazprom chairman says has no offer from TNK-BP

Gazprom has not received any official offer to buy into BP's TNK-BP, Gazprom's chairman Dmitry Medvedev said on Tuesday. "We understand that if there is a market offer, it can be accepted or can be rejected. But at the moment, there is no offer..." Medvedev, who is also Russia's first deputy prime minister, told reporters. (Reuters)

Novatek 3Q07 results preview

Novatek is due to report its 3Q07 IFRS results this afternoon. We forecast revenues of $565 mn (up 17% y-o-y, down 3% q-o-q), EBITDAX of $312 mn (up 26% y-o-y and up 11% q-o-q) and net income of $190 mn (up 24% y-o-y and 16% q-o-q).

We expect revenues to decrease q-o-q due to lower realizations, which are themselves the result of lower production—Novatek reported production of 6.01 bcm in 3Q07 (down 18% q-o-q and 16% y-o-y) and 631 mn tons of liquids (flat y-o-y but up 6% q-o-q). However, the 10% q-o-q increase in the benchmark Urals price (and subsequent increases in the price of products Novatek sells) should make up for most of the drop in output. Novatek derives c40% of its revenues from liquid sales..

U.S. approves Encana's purchase of Leor Energy

U.S. antitrust authorities approved EnCana purchase of Leor Energy's stake in a massive natural gas field in Texas, the Federal Trade Commission said on Tuesday. EnCana, which already owns one-half of the prolific Amoruso field, bought the other 50 percent and other properties for $2.55 billion. (Reuters)

Petro-Canada eyes Yamal in asset swap with Gazprom

Petro-Canada may swap assets with Gazprom as it wants to get a foothold in Russia's Arctic Yamal peninsula, an executive from the Canadian company said on Tuesday. "We would consider asset swaps to develop upstream opportunities in Yamal," the firm's vice-president for business development, Graham Lyon, told reporters on the sidelines of a Moscow gas conference. (Reuters)

Origin Energy says to abandon NZ test well

Origin Energy Limited has been advised by Operator OMV New Zealand Limited that the Moana 1 exploration well in permit PEP 38485, offshore Taranaki Basin, New Zealand has reached a total depth of 3,674mRT. No significant hydrocarbon shows have been encountered in the primary reservoir and the well will be plugged and abandoned. (Reuters)

Fugro trading statement in-line to positive

Fugro trading statement was in-line to positive, expecting 2007 revenue 1.8bn (consensus 1.8bn) and net income to be "at least €210m" (consensus €213). Fugro commented that "multi client sales in the Gulf of Mexico are lagging behind earlier expectations." This is the issue that has broken the TGS Nopec / Wavefield merger and has also been cited as a problem for CGG-Veritas. Our view is that although wide-azimuth (WAZ) is taking over from convention narrow azimuth, all of the seismic companies (except TGS-Nopec) are sufficiently diversified - and are already moving towards WAZ surveys - for this to be a minor issue.

Transocean, GlobalSantaFe receive merger approval

Transocean said on Tuesday that it had received approval from the Grand Court of the Cayman Islands for its proposed merger with GlobalSantaFe Corp. The parties have tentatively scheduled to complete the transaction on Nov. 27, it said. The merger remains the subject of an investigation by the Office of Fair Trading for the United Kingdom. (Reuters)

Woodside Says Belicoso Dry, Plenty Of Other Pluto 2 Options

Woodside Petroleum said Wednesday its Belicoso-1 exploration well has come up dry but that it has plenty of other options for gas to underpin a planned second liquefied natural gas processing train at its Pluto project. Woodside said Belicoso didn't encounter hydrocarbons but did intersect reservoir thickness and quality that were better than expected. (Reuters)

Sinopec refineries up fuel output plans

Sinopec refineries have raised their fuel output targets as a top company official pledged to boost production following Beijing's latest call to ensure supplies amid widespread shortages. Yanshan refinery, Sinopec's plant in Beijing, raised its planned fuel output by 100,000 tonnes of gasoline and 50,000 tonnes of diesel in the fourth quarter, a report on a company Web site said. (Reuters)

Reliance gets 2 new oil blocks in Yemen

Yemen signed two oil exploration deals on Tuesday with Reliance Industries the official Yemeni news agency Saba reported. Under the production sharing agreements, Reliance Exploration & Production DMCC and its Yemeni partner Hood are to invest $66 million to develop blocks 34 and 37 in eastern Yemen, the agency said. (Reuters)

HPCL plans $4.5 bn capex over 5 yrs

Hindustan Petroleum Corp Ltd plans to spend about $4.5 billion on exploration, gas marketing and petrochemicals by 2012, a senior official said on Tuesday. HPCL, which runs two refineries with a total capacity of 260,000 barrels per day (bpd), hopes to invest about $1 billion for exploration and production over the next five years, Finance Director C. Ramulu told Reuters in an interview. (Reuters)

UBS Publication

Holly Corporation: HOC Announces In-Principle Sale of Certain Pipeline and Tankage Assets

HOC today announced in-principle sale of certain pipeline (including Navajo refinery crude delivery system & Western Permian basin crude gathering line) and tankage assets (including on-site crude tankage located at Navajo & Woods Cross refineries of approx. 600 MBbld capacity). Of the total $180 mm sale price, approx. $171 mm will be cash proceeds and the remaining $9 mm worth of HEP common units. HOC expects this transaction to close by 4Q07 or 1Q08. These assets should enable HEP to grow and thereby increase its distributions to the general partner (i.e. HOC) and we expect the distributions to reach high splits (50/50) by 4Q08/1Q09. We expect HOC's growth strategy to be closely linked to that of HEP, given the overlap in refining/transportation. Holly currently has a strong balance sheet position, with no long-term debt. Holly has strong operating metrics, best in class operating income per Bbl and ROCE. Our $69 price target is based on our estimate of HOC trading at 22x normalized 2008E EBITDA, above its historic average.

Petroleo Brasileiro: Valuation Support

UBS has raised its forecasts for oil prices in the 2007-2012 period and raised our normalized price assumption to $63/bbl from $50/bbl. Drivers here are a concern on non-Opec's ability to raise production, rising costs and taxes, and PSC effects on oil companies. We are raising our target for Petrobras by 37% to R$126.8, upping our EPS forecasts by 23% in 2008-2009 and 81% in 2010-2012. While our oil forecasts are now above consensus, particularly on the medium term, we believe that where it matters most (in our normalized forecasts) we are really catching up to investor's consensus. Our target upgrade might not be much of a surprise to investors. Still, we still see more upside on exploration than the average investor expects, and sooner rather than later. We reiterate our Buy rating for Petrobras. In our view, the company is an excellent vehicle to play higher for longer oil prices due to its large undeveloped reserve base, its production growth potential and its potential for even more exploratory upside. In a sense, we believe our oil call highlights some of Petrobras' positives. Low exposure to PSC's and a stable tax regime in Brazil make it more appealing when looking at the outlook we see for the oil sector. Our target is based on a DCF with a 8.3% WACC and 3% perpetuity growth. At perpetuity we add to our DCF the value of Petrobras' excess reserves at US$5/bbl.

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Source: UBS

Additional Risk Statements:- Holly Corp: U.S. Independent Refining companies are subject to risks primarily associated with volatile movements in crude oil prices and refining margins. Additionally, economic growth forecasts, particularly in the US have an impact on the demand for crude oil as well as refined products. These companies are also exposed to political risk, in the form of increased regulation and scrutiny on permissible fuel specifications and meteorological events like hurricanes. Moreover, refining margins being extremely volatile makes the forecasting of future earnings results extremely challenging. Petrobras: Petrobras is exposed to a number of risks in its activities that include: (i) exploration risk in its oil exploration portfolio; (ii) execution risk on new production and downstream assets; (iii) commodity price risks on its day to day marketing and trading businesses; and (iv) administrative risks due to the potential change in management that the company faces every four years, in line with Brazil's presidential elections. The most relevant risks to our forecasts focus on Petrobras' ability to increase its oil and gas production, its ability to keep

domestic fuel prices high enough to maintain profitability of its refining assets and the Brazilian exchange rate.

Statement of Risk

The risks associated with our oil investment theses include lower oil and natural gas prices, margins for global refining, marketing, and chemicals, as well as normal exploration risks associated with the oil and gas business. E&P companies are subject to risks associated with unexpected movements in volatile natural gas and crude oil prices, as well as the impact that political, economic and meteorological events could impart. Moreover, E&P companies are subject to geologic risk (i.e., exploration risk).

Investing in oilfield service stocks is an inherently risky affair and not for the faint of heart. The stocks are among the most volatile in the equity market. Furthermore, industry conditions and activity levels are subject to numerous risks including: weather, commodity price changes, political events in numerous countries around the world, global and regional economic conditions, rapidly changing earnings conditions, merger and acquisition activity by its customers (oil companies), changing technologies, and access to capital both within the industry and for the customers. Therefore, caution should be exercised when analyzing and investing in oilfield service stocks. The offshore construction market is very competitive and there has been significant overcapacity in the past. This can lead some competitors to bid too aggressively for work, which has the potential to diminish profit margins for all participants.

Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Required Disclosures

This report has been prepared by UBS Limited, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS.

For information on the ways in which UBS manages conflicts and maintains independence of its research product; historical performance information; and certain additional disclosures concerning UBS research recommendations, please visit www.ubs.com/disclosures.

UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	Buy	55%	40%
Neutral	Hold/Neutral	36%	35%
Sell	Sell	9%	22%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	Buy	0%	29%
Sell	Sell	0%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2007.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).
Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.
UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.
Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned or Company Disclosure table in the relevant research piece.

Company Disclosures

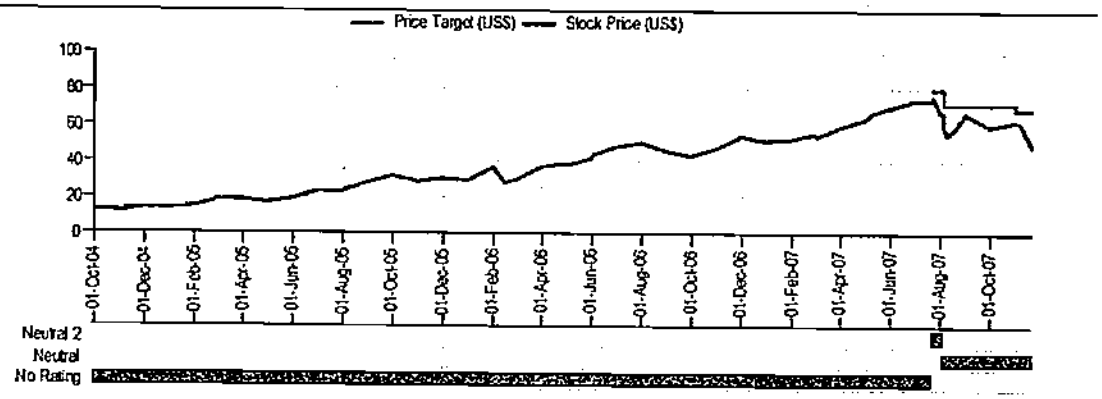
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Holly Corporation[16]	HOC.N	Neutral	N/A	US$49.15	20 Nov 2007
Petroleo Brasileiro[2, 4, 5, 16, 20, 22]	PETR4.SA	Buy (CBE)	N/A	R$77.30	20 Nov 2007

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

2. UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company/entity or one of its affiliates within the past 12 months
4. Within the past 12 months, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company/entity.
5. UBS AG, its affiliates or subsidiaries expect to receive or intend to seek compensation for investment banking services from this company/entity within the next three months.
16. UBS Securities LLC makes a market in the securities and/or ADRs of this company.
20. Because UBS believes this security presents significantly higher-than-normal risk, its rating is deemed Buy if the FSR exceeds the MRA by 10% (compared with 6% under the normal rating system).
22. UBS AG, its affiliates or subsidiaries held other significant financial interests in this company/entity as of last month's end (or the prior month's end if this report is dated less than 10 working days after the most recent month's end).

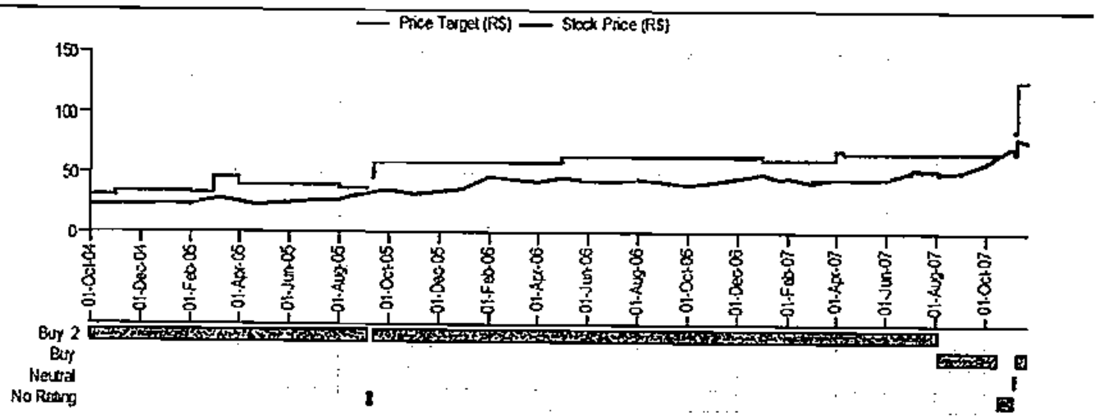
Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Holly Corporation (US$)



Source: UBS; as of 20 Nov 2007

Petroleo Brasileiro (R$)



Source: UBS; as of 20 Nov 2007

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

Additional Prices: BP, 580p (20 Nov 2007); ConocoPhillips Inc., US$79.29 (20 Nov 2007); EnCana Corporation, US$67.84 (20 Nov 2007); EnCana Corporation INTG, (); Eni, €24.07 (20 Nov 2007); ExxonMobil Corp., US$87.82 (20 Nov 2007); Fugro, €55.72 (20 Nov 2007); Galp Energia, €14.05 (20 Nov 2007); Gazprom, US$51.80 (20 Nov 2007); GlobalSantaFe Inc., US$82.45 (20 Nov 2007); Hindustan Petroleum, Rs300.45 (20 Nov 2007); Mol, HUF25,545.00 (20 Nov 2007); Novatek, US$6.00 (20 Nov 2007); OMV, €49.28 (20 Nov 2007); Origin Energy, A$8.75 (20 Nov 2007); Petrobras Energia Part., AP3.39 (20 Nov 2007); Petro-Canada, C$51.83 (20 Nov 2007); Reliance Industries, Rs2,786.85 (20 Nov 2007); Royal Dutch Shell, 1,986p (20 Nov 2007); Sinopec, HK$10.90 (20 Nov 2007); Test, CHF76.30 (20 Nov 2007); TNK-BP Holding, US$2.21 (20 Nov 2007); TOTAL, €54.91 (20 Nov 2007); Transocean Inc., US$122.02 (20 Nov 2007); Woodside Petroleum Limited, A$47.80 (20 Nov 2007). Source: UBS. All prices as of local market close.

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